



# Legislative Audit Division

State of Montana

Report to the Legislature

March 2002

## Financial-Compliance Audit For the Two Fiscal Years Ended June 30, 2001

### Montana Single Audit Report

This document is prepared in accordance with the federal Single Audit Act Amendments of 1996 and OMB Circular A-133. It contains the auditor's reports on Montana's General Purpose Financial Statements and Schedules of Expenditures of Federal Awards for the fiscal years ended June 30, 2000, and 2001, as well as Reports on Internal Controls and Compliance, the Schedule of Findings and Questioned Costs, the Corrective Action Plan, and the Summary Schedule of Prior Audit Findings.

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## FINANCIAL-COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

Copies of the Single Audit Report can be obtained by contacting:

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PO Box 200802  
Helena MT 59620-0802  
Phone (406) 444-3616

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# LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor  
John W. Northey, Legal Counsel



Deputy Legislative Auditors:  
Jim Pellegrini, Performance Audit  
Tori Hunthausen, IS Audit & Operations  
James Gillett, Financial-Compliance Audit

March 2002

The Legislative Audit Committee  
of the Montana State Legislature:

This is our Single Audit Report of the state of Montana for the two fiscal years ended June 30, 2001. This document contains the independent auditor's reports on the state of Montana's General Purpose Financial Statements and Schedules of Expenditures of Federal Awards for the fiscal years ended June 30, 2000 and 2001. It also contains reports on the state of Montana's internal controls and compliance with federal and state laws and regulations, a Schedule of Findings and Questioned Costs, a Corrective Action Plan, and a Summary Schedule of Prior Audit Findings. The Single Audit was conducted in accordance with *Government Auditing Standards* and Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-profit Organizations.

The review disclosed certain questioned costs and deficiencies, which are summarized in the Schedule of Findings and Questioned Costs in this document. Agency management has responded to the audit findings, and the responses are included in the Corrective Action Plan prepared by the Office of Budget and Program Planning. Findings previously reported in the state of Montana's Single Audit Report for the two fiscal years ended June 30, 1999, that would be reported under OMB Circular A-133 are included in the Summary Schedule of Prior Audit Findings, which was also prepared by the Office of Budget and Program Planning.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Scott A. Seacat".

Scott A. Seacat  
Legislative Auditor





# **Legislative Audit Division**

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**Financial-Compliance Audit**

**For the Two Fiscal Years Ended June 30, 2001**

## **Montana Single Audit Report**

All financial compliance audit staff were involved in the individual agency audits and statewide audits supporting this audit report. Staff involved in incorporating results from individual agency audits and statewide audits into this audit report include Geri Hoffman, Jennifer Solem, and Joyce Weber.



## Table of Contents

<b>Section A</b>	Independent Auditor's Report .....	Page A-1
<b>FY01 Financial Section</b>	General Purpose Financial Statements .....	Page A-4
	Independent Auditor's Report on the Schedule of Expenditures of Federal Awards .....	Page A-75
	Schedule of Expenditures of Federal Awards .....	Page A-77
	Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of General Purpose Financial Statements Performed In Accordance With <i>Government Auditing Standards</i> .....	Page A-115
<b>Section B</b>	Independent Auditor's Report .....	Page B-1
<b>FY00 Financial Section</b>	General Purpose Financial Statements .....	Page B-4
	Independent Auditor's Report on the Schedule of Expenditures of Federal Awards .....	Page B-73
	Schedule of Expenditures of Federal Awards .....	Page B-75
	Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of General Purpose Financial Statements Performed In Accordance With <i>Government Auditing Standards</i> .....	Page B-111
<b>Section C</b>	Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 .....	Page C-1
<b>Auditor's Report &amp; Findings</b>	Schedule of Findings and Questioned Costs:	
	Section I – Summary of Auditor's Results .....	Page C-3
	Section II – Financial Statement Findings .....	Page C-5
	Section III – Federal Award Findings and Questioned Costs .....	Page C-13
	<b>Department of Agriculture</b> 2-1 .....	Page C-13
	2-2 .....	Page C-14

## Table of Contents

---

	2-3 .....	Page C-16
	2-43 .....	Page C-60
	2-45 .....	Page C-62
	2-47 .....	Page C-64
	2-48 .....	Page C-65
	2-54 .....	Page C-71
<b>Department of Defense</b>	2-4 .....	Page C-19
	2-53 .....	Page C-70
<b>Department of Housing and Urban Development</b>	2-5 .....	Page C-20
	2-6 .....	Page C-21
<b>Department of the Interior</b>	2-7 .....	Page C-22
	2-9 .....	Page C-24
	2-10 .....	Page C-25
	2-11 .....	Page C-26
	2-20 .....	Page C-36
<b>Department of Labor</b>	2-12 .....	Page C-27
	2-13 .....	Page C-29
	2-14 .....	Page C-30
	2-15 .....	Page C-31
	2-16 .....	Page C-32
	2-17 .....	Page C-33
	2-42 .....	Page C-59
	2-46 .....	Page C-63
<b>Department of Transportation</b>	2-18 .....	Page C-34
<b>Environmental Protection Agency</b>	2-8 .....	Page C-23
	2-19 .....	Page C-35
	2-20 .....	Page C-36
	2-49 .....	Page C-66
	2-50 .....	Page C-67
<b>Department of Energy</b>	2-20 .....	Page C-36
<b>Department of Education</b>	2-2 .....	Page C-14
	2-3 .....	Page C-16
	2-12 .....	Page C-27
	2-21 .....	Page C-37
	2-45 .....	Page C-62
	2-47 .....	Page C-64
	2-48 .....	Page C-65
	2-51 .....	Page C-68

# Table of Contents

	2-52 .....	Page C-69
<b>Department of Health and Human Services</b>	2-2 .....	Page C-14
	2-3 .....	Page C-16
	2-22 .....	Page C-38
	2-23 .....	Page C-39
	2-24 .....	Page C-40
	2-25 .....	Page C-41
	2-26 .....	Page C-42
	2-27 .....	Page C-43
	2-28 .....	Page C-44
	2-29 .....	Page C-45
	2-30 .....	Page C-46
	2-31 .....	Page C-47
	2-32 .....	Page C-48
	2-33 .....	Page C-49
	2-34 .....	Page C-50
	2-35 .....	Page C-51
	2-36 .....	Page C-52
	2-37 .....	Page C-54
	2-38 .....	Page C-55
	2-39 .....	Page C-56
	2-44 .....	Page C-61
	2-47 .....	Page C-64
	2-48 .....	Page C-65
<b>Department of Social Security Administration</b>	2-47 .....	Page C-64
	2-48 .....	Page C-65
<b>Various Federal Agencies</b>	2-40 .....	Page C-57
	2-41 .....	Page C-58
<b>Section D</b>		
<b>Corrective Action Plan</b>	Corrective Action Plan .....	Page D-1
<b>Section E</b>		
<b>Summary Schedule of Prior Audit Findings</b>	Summary Schedule of Prior Audit Findings.....	Page E-1



**FY01 Financial Section**

**FY00 Financial Section**

**Auditor's Report & Findings**

**Corrective Action Plan**

**Summary Schedule of Prior  
Audit Findings**





# FY01 Financial Section

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## Table of Contents

Independent Auditor's Report .....	Page A-1
General Purpose Financial Statements .....	Page A-4
Independent Auditor's Report on the Schedule of Expenditures of Federal Awards .....	Page A-75
Schedule of Expenditures of Federal Awards .....	Page A-77
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of General Purpose Financial Statements Performed In Accordance With <i>Government Auditing Standards</i> .....	Page A-115



# LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor  
John W. Northey, Legal Counsel



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Jim Pellegrini, Performance Audit  
Tori Hunthausen, IS Audit & Operations  
James Gillett, Financial-Compliance Audit

## INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying Combined Balance Sheet All Fund Types, Account Groups and Discretely Presented Component Units; Combining Balance Sheet - Component Units - Proprietary Fund Types; Combining Statement of Plan Net Assets - Component Units - Pension Trust Funds; and Combining Balance Sheet - Component Units - All Higher Education Funds of the state of Montana as of June 30, 2001; the related Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types and Expendable Trust Funds; Combined Statement of Revenues, Expenditures, Other Financing Sources (Uses) and Reconciliation of Budget and Actual (Budgetary Basis) to GAAP Basis - Unreserved Fund Balance - General and Special Revenue Fund Types; Combined Statement of Revenues, Expenses and Changes in Retained Earnings/Fund Balances - All Proprietary Fund Types, Similar Trust Funds and Discretely Presented Component Units; Combining Statement of Revenues, Expenses and Changes in Retained Earnings - Component Units - Proprietary Fund Types; Statement of Changes in Net Assets - Investment Trust Fund; Combining Statement of Changes in Plan Net Assets - Component Units - Pension Trust Funds; Statement of Changes in Fund Balance - Component Units - All Higher Education Funds; Statement of Current Funds Revenues, Expenditures, Transfers and Other Changes - Component Units - Higher Education Fund Type; and the related Combined Statement of Cash Flows - All Proprietary Fund Types, Nonexpendable Trust Funds and Discretely Presented Component Units and Combining Statement of Cash Flows - Component Units - Proprietary Fund Types for the year then ended. These general purpose financial statements are the responsibility of the state of Montana's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the Montana State Lottery, which statements reflect total assets of 7.59 percent, liabilities of 9.39 percent, and total revenues/transfers-in and expenses/transfers-out of 28.52 percent and 29.23 percent, respectively, in the Enterprise Fund. This financial activity was audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Montana State Lottery, is based solely upon the report of the other auditors.

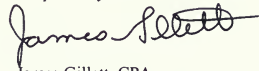
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates

made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

In our opinion, based upon our audit and the report of the other auditors, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the state of Montana as of June 30, 2001, and the results of its operations, the cash flows of its proprietary and nonexpendable trust fund types and discretely presented component units, the changes in plan net assets of the investment trust fund and its component unit pension trust funds, and the changes in fund balance and current funds revenues, expenditures, transfers and other changes of the component unit higher education funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we will issue our report dated January 4, 2002, on our consideration of the state of Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "James Gillett", with a stylized flourish at the end.

James Gillett, CPA  
Deputy Legislative Auditor

January 4, 2002

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STATE OF MONTANA  
 COMBINED BALANCE SHEET  
 ALL FUND TYPES, ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNITS  
 June 30, 2001  
 (Expressed in Thousands)

Assets/Other Debits	Governmental Fund Types				Proprietary Fund Types	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service
Assets:						
Cash/Cash Equivalents (Note 4)	\$ 138,581	\$ 253,106	\$ 32,364	\$ 37,695	\$ 25,077	\$ 22,822
Receivables (Net of Uncollectibles)	112,581	76,710	1,161	1,044	15,531	586
Interfund Loans Receivable (Note 13)	55,803	24,907	-	-	-	3
Due from Other Governments	6,353	122,930	-	-	-	15
Due from Primary Government (Note 13)	-	-	-	-	-	-
Due from Component Units (Note 13)	626	273	-	2	90	1,641
Due from Other Funds (Note 13)	43,436	10,384	-	544	333	7,817
Inventories	3,389	27,612	-	-	6,819	738
Equity in Pooled Investments (Note 4)	-	143,148	-	-	-	-
Long-Term Loans/Notes Receivable	-	105,332	32,906	-	56,530	-
Advances to Other Funds (Note 13)	100	523	1,862	-	392	-
Investments (Note 4)	-	107,715	1,925	-	8,013	16,561
Securities Lending Collateral (Note 4)	-	16,412	-	-	468	5,268
Land	-	-	-	-	800	235
Buildings/Improvements	-	-	-	-	5,849	-
Equipment	-	-	-	-	7,389	152,036
Other Fixed Assets	-	-	-	-	1,154	-
Construction in Progress	-	-	-	-	15	3,228
Accumulated Depreciation	-	-	-	-	(7,357)	(85,399)
Intangible Assets	-	-	-	-	1,735	466
Deferred Charges	-	-	-	-	1,083	-
Other Assets	5,942	1,597	-	4	2,281	329
Other Debits:						
Amount Available - Debt Service Funds	-	-	-	-	-	-
Resources to be Provided in Future Years	-	-	-	-	-	-
Total Assets/Other Debits	\$ 365,811	\$ 890,649	\$ 70,218	\$ 39,289	\$ 126,202	\$ 126,347

The notes to the financial statements are an integral part of this statement.

Fiduciary		Account Groups			Component Units				
Fund Types		General	General			Trust and	Proprietary	Pension	Higher
	Trust and Agency	Fixed Assets	Long-Term Obligations	Special Revenue		Agency	Fund Types	Trust Funds	Education Funds
\$	1,103,243	\$ -	\$ -	\$ 1	\$ 2,947	\$	47,692	\$ 183,485	\$ 106,439
	105,946	-	-	-	980		32,651	37,237	55,636
	446	-	-	-	-		-	-	14,762
	-	-	-	-	-		-	-	6,803
	-	-	-	-	455		7	11,791	3,956
	870	-	-	-	-		-	-	-
	21,159	-	-	-	40		1,420	1,069	21,050
	-	-	-	-	-		-	-	3,712
	961,870	-	-	-	69,692		-	4,591,971	3,336
	2,826	-	-	1,500	-		602,829	477	327
	30	-	-	-	-		-	-	196
	183,480	-	-	-	126,751		784,979	729,038	4,229
	102,209	-	-	-	7,229		93,769	229,272	189
	51,260	71,257	-	-	-		-	35	13,700
	-	425,163	-	-	-		-	158	594,947
	-	64,820	-	-	-		2,851	142	118,442
	1	65,501	-	-	-		-	-	95,870
	-	28,571	-	-	-		-	-	15,661
	-	-	-	-	-		(1,494)	(222)	-
	-	-	-	-	-		6,124	4,249	3,907
	-	-	-	-	-		7,468	-	2,047
	18,532	-	-	-	-		852	-	6,818
	-	-	35,430	-	-		-	-	-
	-	-	396,628	-	-		-	-	-
\$	2,551,872	\$ 655,312	\$ 432,058	\$ 1,501	\$ 208,094	\$	1,579,148	\$ 5,788,702	\$ 1,072,027

(Continued on Next Page)

STATE OF MONTANA  
 COMBINED BALANCE SHEET - Continued  
 ALL FUND TYPES, ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNITS  
 June 30, 2001  
 (Expressed in Thousands)

	Governmental Fund Types				Proprietary Fund Types	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service
<b>Liabilities/Equity/Other Credits</b>						
<b>Liabilities:</b>						
Accounts Payable	\$ 126,019	\$ 123,035	\$ 13	\$ 2,420	\$ 4,880	\$ 6,751
Lottery Prizes Payable	-	-	-	-	3,433	-
Interfund Loans Payable (Note 13)	-	79,011	-	-	201	923
Advances from Other Funds (Note 13)	-	2,290	-	-	130	490
Due to Other Governments	84	4,205	-	-	51	-
Due to Primary Government (Note 13)	-	-	-	-	-	-
Due to Component Units (Note 13)	11,814	2,994	-	27	5	38
Due to Other Funds (Note 13)	12,729	29,739	8	83	8,355	2,283
Deferred Revenue	33,537	33,181	-	-	2,584	56
Lease/Installment Purchase Payable (Note 11)	-	-	-	-	-	2,650
Bonds/Notes Payable (Net) (Note 12)	-	-	-	-	74,846	5,718
Property Held in Trust	198	3,041	-	191	145	19
Securities Lending Liability (Note 4)	-	16,412	-	-	468	5,268
Compensated Absences Payable (Note 1)	-	-	-	-	799	4,358
Estimated Insurance Claims (Note 9)	-	-	-	-	3,239	34,793
Early Retirement Benefits Payable (Note 12)	-	-	-	-	-	-
Arbitrage Rebate Tax Payable	-	-	-	-	373	-
Other Liabilities	1	62	-	-	-	-
<b>Total Liabilities</b>	<b>184,382</b>	<b>293,970</b>	<b>21</b>	<b>2,721</b>	<b>99,509</b>	<b>63,347</b>
<b>Equity/Other Credits:</b>						
Investment in General Fixed/Plant Assets	-	-	-	-	-	-
Contributed Capital (Note 17)	-	-	-	-	5,115	19,394
<b>Retained Earnings:</b>						
Reserved for Debt Service	-	-	-	-	-	-
Unreserved	-	-	-	-	21,578	43,606
<b>Fund Balances:</b>						
Reserved for Encumbrances	6,043	39,983	-	4	-	-
Reserved for Inventories	3,389	22,816	-	-	-	-
Reserved for Long-Term Loans	-	105,332	32,906	-	-	-
Reserved for Long-Term Advances (Note 13)	100	523	1,862	-	-	-
Reserved for Debt Service	-	-	6,248	-	-	-
Reserved for Trusts/Endowments (Note 15)	-	6,552	-	-	-	-
Reserved for Construction	-	-	-	-	-	-
Reserved for Pool Participants	-	-	-	-	-	-
Reserved for Employee Pension Benefits	-	-	-	-	-	-
Unreserved, Designated (Note 1)	30,000	275	29,181	-	-	-
Unreserved, Undesignated	142,897	421,198	-	36,564	-	-
<b>Total Equity/Other Credits</b>	<b>182,429</b>	<b>596,679</b>	<b>70,197</b>	<b>36,568</b>	<b>26,693</b>	<b>63,000</b>
<b>Total Liabilities/Equity/Other Credits</b>	<b>\$ 366,811</b>	<b>\$ 890,649</b>	<b>\$ 70,218</b>	<b>\$ 39,289</b>	<b>\$ 126,202</b>	<b>\$ 126,347</b>

The notes to the financial statements are an integral part of this statement.



Fiduciary Fund Types		Account Groups		Component Units					
Trust and Agency		General Fixed Assets	General Long-Term Obligations	Special Revenue	Trust and Agency	Proprietary Fund Types	Pension Trust Fund	Higher Education Funds	
\$ 14,997	\$ -	\$ -	\$ -	\$ -	\$ 50	\$ 7,361	\$ 1,298	\$ 21,069	
-	-	-	-	-	-	-	-	-	
500	-	-	-	-	525	-	-	14,762	
-	-	-	-	-	-	-	-	192	
-	-	-	-	-	-	-	-	6,725	
-	-	-	-	-	4	1,168	168	2,162	
1,331	-	-	-	-	-	-	-	-	
31,027	-	-	-	-	6	848	248	21,926	
30	-	-	-	-	-	16,763	115	10,645	
-	-	-	2,340	-	-	34	570	1,245	
-	-	-	368,990	-	-	714,021	670	217,395	
205,639	-	-	-	-	-	5,384	-	5,233	
102,209	-	-	-	-	7,229	93,769	229,272	189	
-	-	-	58,964	-	-	1,305	308	35,120	
-	-	-	-	-	-	430,600	-	-	
-	-	-	339	-	-	-	-	26	
-	-	-	1,425	-	-	942	-	-	
1,941	-	-	-	-	-	-	-	-	
357,674	-	-	432,058	-	7,814	1,272,195	232,649	336,689	
-	655,312	-	-	-	-	-	-	628,025	
-	-	-	-	-	-	154,468	-	-	
-	-	-	-	-	-	104,475	-	-	
-	-	-	-	-	-	48,010	-	-	
2,315	-	-	-	-	-	-	-	280	
2,825	-	-	-	1,500	-	-	-	-	
-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	(201)	
1,225,292	-	-	-	-	200,280	-	-	36,440	
-	-	-	-	-	-	-	-	2,457	
768,240	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	5,556,053	-	
195,526	-	-	-	1	-	-	-	-	
2,194,198	655,312	-	-	1,501	200,280	306,953	5,556,053	735,338	
\$ 2,551,872	\$ 655,312	\$ 432,058	\$ 1,501	\$ 208,094	\$ 1,579,148	\$ 5,788,702	\$ 1,072,027		

STATE OF MONTANA  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS  
 For the Fiscal Year Ended June 30, 2001  
 (Expressed in Thousands)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<b>Revenues:</b>				
Licenses/Permits	\$ 28,516	\$ 97,922	\$ -	\$ -
<b>Taxes:</b>				
Natural Resource	38,408	76,510	290	3,667
Individual Income	554,523	-	-	-
Corporate Income	102,419	100	-	-
Property	178,879	7,237	-	-
Fuel	-	183,600	-	-
Other (Note 1)	123,515	62,718	-	1,831
Charges for Services/Fines/Forfeits/Settlements	44,251	121,283	333	132
Investment Earnings	21,480	35,519	7,099	327
Securities Lending Income	1,455	1,210	50	2
Sale of Documents/Merchandise/Property	864	4,524	2,550	-
Rentals/Leases/Royalties	73	514	-	-
Contributions/Premiums	-	6,142	-	-
Grants/Contracts/Donations	1,983	15,187	-	-
Federal	35,430	1,171,081	11	-
Federal Indirect Cost Recoveries	89	1,869	-	-
Other Revenues	711	1,892	-	82
<b>Total Revenues</b>	<b>1,132,596</b>	<b>1,787,308</b>	<b>10,333</b>	<b>6,041</b>
Intrafund Revenues	(736)	(2,289)	-	-
<b>Net Revenues</b>	<b>1,131,860</b>	<b>1,785,019</b>	<b>10,333</b>	<b>6,041</b>
<b>Expenditures:</b>				
<b>Current:</b>				
General Government	122,832	95,933	3	7,996
Public Safety/Corrections	127,684	-	-	-
Transportation	405	416,432	-	-
Health/Social Services	253,105	737,824	60	-
Education/Cultural	531,536	125,498	-	-
Resource Development/Recreation	74,420	72,909	42	-
Economic Development/Assistance	20,374	111,836	-	1,070
<b>Debt Service:</b>				
Principal Retirement	527	1,474	32,160	-
Interest/Fiscal Charges	169	680	17,067	21
Capital Outlay	1,973	46,155	-	24,247
Securities Lending	1,404	1,174	49	2
<b>Total Expenditures</b>	<b>1,134,429</b>	<b>1,696,638</b>	<b>49,381</b>	<b>33,336</b>
Intrafund Expenditures	(736)	(2,289)	-	-
<b>Net Expenditures</b>	<b>1,133,693</b>	<b>1,694,349</b>	<b>49,381</b>	<b>33,336</b>
Excess of Revenue Over (Under) Expenditures	(1,833)	90,670	(39,048)	(27,295)
<b>Other Financing Sources (Uses):</b>				
Loan Proceeds	-	1,202	-	-
Bond Proceeds	-	13,644	7	13,030
Inception of Lease/Installment Contract	135	128	-	-
General Fixed Asset Sale Proceeds	125	216	-	-
Operating Transfers In (Note 13)	133,757	46,759	43,646	9,571
Transfers from Component Units (Note 13)	-	115	282	-
Operating Transfers Out (Note 13)	(22,412)	(77,961)	(2,732)	(6,065)
Transfers to Component Units (Note 13)	(117,745)	(17,148)	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>(6,140)</b>	<b>(33,045)</b>	<b>41,203</b>	<b>16,536</b>
Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses	(7,973)	57,625	2,155	(10,759)
<b>Fund Balances - July 1 - As Previously Reported</b>	<b>186,785</b>	<b>532,252</b>	<b>68,042</b>	<b>47,327</b>
Prior Period Adjustments (Note 3)	2,866	15,454	-	-
<b>Fund Balances - July 1 - As Restated</b>	<b>189,651</b>	<b>547,706</b>	<b>68,042</b>	<b>47,327</b>
Increase (Decrease) in Inventories	(314)	(439)	-	-
Residual Equity Transfers (Note 13)	1,065	(8,213)	-	-
<b>Fund Balances - June 30</b>	<b>\$ 182,429</b>	<b>\$ 596,679</b>	<b>\$ 70,197</b>	<b>\$ 36,568</b>

The notes to the financial statements are an integral part of this statement.

Fiduciary Fund Type	Component Unit	
	Governmental Fund Types	
Expendable Trust	Special Revenue	Expendable Trust
\$ -	\$ -	\$ -
-	-	-
-	-	-
-	-	-
-	-	-
-	-	231
13,526	-	(2,974)
57	-	488
42	-	-
-	-	-
57,289	-	12,032
894	-	-
3,937	-	-
-	-	-
-	-	-
75,535	-	9,777
-	-	-
75,535	-	9,777
163	-	8,248
-	-	-
301	-	-
-	-	-
56	-	-
414	-	-
68,464	-	-
-	-	-
-	-	-
3,100	-	-
53	-	475
72,551	-	8,723
-	-	-
72,551	-	8,723
2,984	-	1,054
-	-	-
-	-	-
-	-	-
-	-	-
71	-	-
-	-	-
(620)	-	-
-	-	-
(549)	-	-
2,435	-	1,054
199,060	1,501	199,302
(829)	-	(76)
198,231	1,501	199,226
-	-	-
-	-	-
\$ 200,666	\$ 1,501	\$ 200,280

STATE OF MONTANA  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, OTHER FINANCING SOURCES (USES) AND  
 RECONCILIATION OF BUDGET AND ACTUAL (BUDGETARY BASIS) TO GAAP BASIS - UNRESERVED FUND BALANCE  
 GENERAL AND SPECIAL REVENUE FUND TYPES  
 For the Fiscal Year Ended June 30, 2001  
 (Expressed in Thousands)

	General Fund			Special Revenue Funds		
	Budget	Actual	Variance - Favorable (Unfavorable)	Budget	Actual	Variance - Favorable (Unfavorable)
<b>Revenues:</b>						
Licenses/Permits	\$ 26,672	\$ 28,606	\$ 1,934	\$ 97,652	\$ 97,687	\$ 35
Taxes:						
Natural Resource	13,992	35,672	21,680	22,273	71,756	49,483
Individual Income	496,720	556,734	60,014	-	-	-
Corporate Income	65,634	103,670	38,036	8,803	-	(8,803)
Property	223,168	178,879	(44,289)	8,535	7,237	(1,298)
Fuel	-	-	-	185,770	183,263	(2,507)
Other	133,529	124,239	(9,290)	64,681	64,300	(381)
Charges for Services/Fines/Forfeits/Settlements	48,007	48,433	426	94,688	92,713	(2,155)
Investment Earnings	20,753	21,480	727	6,163	8,913	2,750
Sale of Documents/Merchandise/Property	287	857	570	4,994	4,301	(693)
Rentals/Leases/Royalties	91	56	(35)	261	496	235
Contributions/Premiums	-	-	-	9,548	8,151	(3,397)
Grants/Contracts/Donations	1,647	1,939	292	15,855	11,266	(4,589)
Federal	18,495	29,538	11,043	1,110,483	1,099,981	(10,502)
Federal Indirect Cost Recoveries	113	83	(30)	1,541	1,872	331
Other Revenues	596	338	(258)	2,353	1,607	(746)
Total Revenues	1,049,704	1,130,524	80,820	1,633,780	1,651,543	17,763
<b>Expenditures:</b>						
Current:						
General Government	129,862	122,796	7,066	112,707	85,797	26,910
Public Safety/Corrections	132,626	127,077	5,549	137,239	87,367	50,372
Transportation	414	405	9	461,219	413,707	47,512
Health/Social Services	254,917	251,497	3,420	771,263	672,467	98,796
Education/Cultural	532,560	531,462	1,098	144,595	124,754	19,841
Resource Development/Recreation	72,678	72,176	502	120,129	73,870	46,259
Economic Development/Assistance	25,045	9,010	16,035	148,162	115,368	32,794
Debt Service:						
Principal Retirement	433	524	(91)	1,365	1,400	(35)
Interest/Fiscal Charges	169	169	-	653	677	(24)
Capital Outlay	1,596	1,907	(311)	36,127	40,513	(4,386)
Total Expenditures	1,150,300	1,117,023	33,277	1,933,959	1,615,920	318,039
Excess of Revenues Over (Under) Expenditures	(100,596)	13,501	114,097	(300,179)	35,623	335,802
<b>Other Financing Sources (Uses):</b>						
Loan Proceeds	-	-	-	1,098	1,202	104
Bond Proceeds	500	-	(500)	10,299	13,635	3,336
General Fixed Asset Sale Proceeds	247	125	(122)	52	106	54
Operating Transfers In	99,201	147,322	48,121	63,572	49,508	(14,064)
Operating Transfers Out	(22,175)	(18,035)	4,140	(97,092)	(46,986)	50,106
Transfers from Component Units	-	-	-	(115)	115	230
Transfers to Component Units	(117,445)	(117,745)	(300)	(17,148)	(17,148)	-
Total Other Financing Sources (Uses)	(39,672)	11,667	51,339	(39,334)	432	39,766
Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses (Budgetary Basis)	(140,268)	25,168	165,436	(339,513)	36,055	375,568
<b>Reconciliation of Budgetary/GAAP Reporting:</b>						
1. Adjust Expenditures for Encumbrances	-	(16,396)	(16,396)	-	(3,889)	(3,889)
2. Adjustments for Nonbudgeted Activity	-	(16,796)	(16,796)	-	25,423	25,423
3. Intrafund Elimination - Revenues/Transfers In	-	(736)	(736)	-	(2,289)	(2,289)
4. Intrafund Elimination - Expenditures/Transfers Out	-	736	736	-	2,289	2,289
5. Securities Lending Income	-	1,455	1,455	-	1,210	1,210
6. Securities Lending Costs	-	(1,404)	(1,404)	-	(1,174)	(1,174)
Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses (GAAP Basis)	(140,268)	(7,973)	132,295	(339,513)	57,625	397,138
<b>Unreserved Fund Balances - July 1</b>	176,000	176,000	-	381,007	381,007	-
Residual Equity Transfers (Note 13)	-	1,065	1,065	-	(8,213)	(8,213)
Prior Period Adjustments (Note 3)	-	3,622	3,622	-	13,951	13,951
<b>Decrease (Increase):</b>						
Encumbrances Reserve	-	1,038	1,038	-	1,345	1,345
Advances to Other Funds Reserve	-	(100)	(100)	-	(408)	(408)
Long-Term Loans Reserve	-	-	-	-	(24,425)	(24,425)
Trusts/Endowments/Fed Loans Reserve (Note 15)	-	-	-	-	70	70
<b>Unreserved Fund Balances - June 30</b>	\$ 35,732	\$ 173,652	\$ 137,920	\$ 41,494	\$ 420,952	\$ 379,458

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA  
STATEMENT OF CHANGES IN NET ASSETS  
INVESTMENT TRUST FUND  
For the Fiscal Year Ended June 30, 2001  
(Expressed in Thousands)

	STIP Trust
<b>Additions:</b>	
Contributions	\$ 1,043,949
Net Investment Earnings:	
Investment Earnings	32,696
Securities Lending Income	233
Securities Lending Expense	(226)
Total Additions	1,076,652
<b>Deductions:</b>	
Local Government STIP Distributions	790,139
Net Increase (Decrease)	286,513
Net Assets Held in Trust for Pool Participants - July 1	481,727
Net Assets Held in Trust for Pool Participants - June 30	\$ 768,240

*The notes to the financial statements are an integral part of this statement.*

FY00 Financial Section

Auditor's Report & Findings

Corrective Action Plan

Summary Schedule of Prior  
Audit Findings

STATE OF MONTANA  
 COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS/FUND BALANCES  
 ALL PROPRIETARY FUND TYPES, SIMILAR TRUST FUNDS AND DISCRETELY PRESENTED COMPONENT UNITS  
 For the Fiscal Year Ended June 30, 2001  
 (Expressed in Thousands)

	Proprietary Fund Types		Fiduciary Fund Type	Component Units	
	Enterprise	Internal Service	Nonexpendable Trust	Proprietary Fund Types	
<b>Operating Revenues:</b>					
Charges for Services	\$ 80,442	\$ 86,955	\$ 6,307	\$	505
Investment Earnings	1,999	3,227	123,580		77,694
Securities Lending Income	53	197	7,159		6,203
Financing Income	3,683	-	-		39,697
Contributions/Premiums	9,078	93,351	-		74,508
Grants/Contracts/Donations	3	6	23		4
Taxes	12,151	15	18,281		114
Rentals/Leases/Royalties	-	-	46,435		-
Other Operating Revenues	223	463	-		1,465
<b>Total Operating Revenues</b>	<b>107,632</b>	<b>184,214</b>	<b>201,785</b>		<b>200,190</b>
<b>Operating Expenses:</b>					
Personal Services	7,031	32,440	-		11,740
Contractual Services	6,113	17,484	-		10,210
Supplies/Materials	36,969	16,729	7		1,058
Benefits/Claims (Note 3)	9,678	10,941	-		74,476
Depreciation	939	10,041	-		302
Amortization	498	22	-		1,095
Utilities/Rent	547	6,899	-		267
Communications	942	10,290	-		1,104
Travel	144	450	-		274
Repair/Maintenance	334	6,696	-		608
Grants	-	-	16		-
Lottery Prize Payments	15,729	-	-		-
Interest Expense	3,851	656	-		40,715
Securities Lending Expense	52	185	6,973		6,042
Arbitrage Rebate Tax	204	-	-		715
Dividends	-	-	-		4,995
Other Operating Expenses	944	1,668	2		3,069
<b>Total Operating Expenses</b>	<b>83,975</b>	<b>195,130</b>	<b>6,998</b>		<b>156,670</b>
<b>Operating Income (Loss)</b>	<b>23,657</b>	<b>(10,916)</b>	<b>194,787</b>		<b>43,520</b>
<b>Nonoperating Revenues (Expenses):</b>					
Gain (Loss) Sale of Fixed Assets	(22)	(223)	-		(41)
Increase (Decrease) Value of Livestock	478	-	-		-
Federal Assistance	-	-	-		241
Federal Indirect Cost Recoveries	-	2,811	-		-
<b>Total Nonoperating Revenues (Expenses)</b>	<b>456</b>	<b>2,588</b>	<b>-</b>		<b>200</b>
<b>Income (Loss) Before Operating Transfers</b>	<b>24,113</b>	<b>(8,328)</b>	<b>194,787</b>		<b>43,720</b>
Operating Transfers In (Note 13)	75	3,410	1,740		6,765
Operating Transfers Out (Note 13)	(26,009)	(1,016)	(102,233)		(6,765)
Operating Transfers to Component Units (Note 13)	-	-	(2,607)		-
<b>Net Income (Loss)</b>	<b>(1,821)</b>	<b>(5,934)</b>	<b>91,687</b>		<b>43,720</b>
<b>Retained Earnings/Fund Balances - July 1</b>					
As Previously Reported	22,705	52,140	1,138,716		109,778
Prior Period Adjustments (Note 3)	696	(2,600)	(5,111)		(1,013)
<b>Retained Earnings/Fund Balances - July 1</b>	<b>23,401</b>	<b>49,540</b>	<b>1,133,605</b>		<b>108,765</b>
As Restated	23,401	49,540	1,133,605		108,765
Residual Equity Transfers (Note 13)	(2)	-	-		-
<b>Retained Earnings/Fund Balances - June 30</b>	<b>\$ 21,578</b>	<b>\$ 43,606</b>	<b>\$ 1,225,292</b>	<b>\$</b>	<b>152,485</b>

The notes to the financial statements are an integral part of this statement.

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STATE OF MONTANA  
 COMBINED STATEMENT OF CASH FLOWS  
 ALL PROPRIETARY FUND TYPES, NONEXPENDABLE TRUST FUNDS AND DISCRETELY PRESENTED COMPONENT UNITS  
 For the Fiscal Year Ended June 30, 2001  
 (Expressed in Thousands)

	Proprietary Fund Types		Fiduciary Fund Type	Component Units
	Enterprise	Internal Service	Nonexpendable Trust	Proprietary Fund Types
<b>Cash Flows from Operating Activities:</b>				
Receipts from Sales and Services	\$ 90,662	\$ 181,469	\$ 6,434	\$ 77,101
Receipts from Fines/Settlements	-	-	10,851	-
Collections of Principal and Interest on Loans	-	-	-	98,581
Cash Payments for Loans	-	-	-	(114,763)
Payments to Suppliers for Goods and Services	(47,306)	(60,594)	(7)	(17,238)
Payments to Employees	(6,931)	(31,921)	-	(11,442)
Grant Receipts	-	2,891	-	-
Grant Payments	-	-	(15)	-
Cash Payments for Claims	(9,129)	(91,474)	-	(75,315)
Collections of Payroll Taxes	-	2	-	98
Cash Payments for Prizes	(15,285)	-	-	-
Scholarship/Fellowship Payments	-	-	(3)	-
Other Operating Revenues	84	433	-	1,500
Other Operating Payments	-	-	-	(4,995)
Net Cash Provided by (Used for)				
Operating Activities	12,095	806	17,060	(46,473)
<b>Cash Flows from Noncapital Financing Activities:</b>				
Payment of Principal and Interest on Bonds and Notes	(13,112)	(2,892)	-	(92,510)
Proceeds from Issuance of Bonds and Notes	16,484	2,140	-	142,940
Payment of Bond Issuance Costs	(337)	-	-	(1,452)
Premium Paid on Refunding Bonds	-	-	-	(88)
Collection of Taxes	12,150	-	17,004	1
Transfers to Other Funds	(26,379)	(1,075)	(107,919)	(6,765)
Transfers to Component Units	-	-	(2,607)	-
Transfers from Other Funds	76	3,410	141	6,765
Cash Payments for Loans	-	(27)	-	-
Proceeds from Interfund Loans	618	(357)	(5,021)	-
Payment of Interfund Loans	(668)	(842)	4,942	-
Contributed Capital Transfers from Other Funds	-	7,150	-	-
Advances from Other Funds	-	490	-	-
Residual Equity Transfers to Other Funds	(2)	-	-	-
Federal Assistance	-	-	-	241
Net Cash Provided by (Used for)				
Noncapital Financing Activities	(11,170)	7,997	(93,460)	49,132
<b>Cash Flows from Capital and Related Financing Activities:</b>				
Acquisition of Fixed Assets	(923)	(17,032)	-	(1,337)
Proceeds from Sale of Fixed Assets	2	785	-	(1)
Principal and Interest Payments on Bonds and Notes	(1,146)	(2,376)	-	-
Net Cash Used for Capital and Related Financing Activities	(2,067)	(18,623)	-	(1,338)
<b>Cash Flow from Investing Activities:</b>				
Purchase of Investments	(14,528)	(515)	(98,080)	(571,005)
Proceeds from Sales or Maturities of Investments	16,992	11,523	50,789	519,330
Proceeds from Securities Lending Transactions	64	202	7,003	6,427
Interest and Dividends on Investments	854	2,445	82,163	55,299
Payment of Securities Lending Costs	(62)	(192)	(6,992)	(6,267)
Collections of Principal and Interest on Loans	27,798	-	-	-
Cash Payments for Loans	(23,234)	-	-	(126)
Arbitrage Rebate Tax	(44)	-	-	-
Collection of Rents/Leases/Royalties	-	-	35,838	-
Net Cash Provided by (Used for)				
Investing Activities	7,840	13,463	70,721	3,658
Net Increase (Decrease) in Cash and Cash Equivalents	6,698	3,643	(5,679)	4,979
Cash and Cash Equivalents, July 1	18,379	19,179	47,567	42,713
Cash and Cash Equivalents, June 30	\$ 25,077	\$ 22,822	\$ 41,888	\$ 47,692

The notes to the financial statements are an integral part of this statement.



	Proprietary Fund Types		Fiduciary Fund Type	Component Units
	Enterprise	Internal Service	Nonexpendable Trust	Proprietary Fund Types
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>				
Operating Income (Loss)	\$ 23,657	\$ (10,916)	\$ 194,787	\$ 43,520
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by (Used for) Operating Activities:</b>				
Depreciation	939	10,041	-	341
Amortization	498	22	-	1,680
Taxes	(12,151)	-	(18,282)	-
Interest Expense	3,851	656	-	40,091
Securities Lending Expense	52	185	6,973	6,041
Interest on Investments	(1,999)	(3,227)	(123,579)	(77,694)
Securities Lending Income	(53)	(197)	(7,159)	(6,202)
Financing Income	(3,683)	-	-	-
Federal Indirect Cost Recoveries	-	2,811	-	-
Arbitrage Rebate Tax	204	-	-	715
Rentals/Losses/Royalties	-	-	(35,784)	-
<b>Change in Assets and Liabilities:</b>				
Decr (Incr) in Accounts Receivable	1,064	967	-	(3,179)
Decr (Incr) in Due from Other Governments	-	(10)	-	-
Decr (Incr) in Due from Other Funds	75	134	104	(931)
Decr (Incr) in Due from Primary Government	-	-	-	8
Decr (Incr) in Due from Component Units	(111)	(675)	-	-
Decr (Incr) in Inventories	481	84	-	27
Decr (Incr) in Intangible Assets	7	2	-	-
Decr (Incr) in Long-Term Loans/Notes Receivable	-	-	-	(55,472)
Incr (Decr) in Deferred Charges	-	-	-	211
Decr (Incr) in Other Assets	123	(114)	-	(804)
Incr (Decr) in Accounts Payable	(307)	1,188	-	1,035
Incr (Decr) in Lottery Prizes Payable	489	-	-	-
Incr (Decr) in Due to Other Funds	(1,537)	103	-	(63)
Incr (Decr) in Due to Other Governments	5	-	-	-
Incr (Decr) in Due to Primary Government	-	-	-	309
Incr (Decr) in Due to Component Units	(4)	1	-	-
Incr (Decr) in Deferred Revenue	(102)	(191)	-	1,513
Incr (Decr) in Property Held in Trust	(52)	(22)	-	4,383
Incr (Decr) in Compensated Absences Payable	66	154	-	243
Incr (Decr) in Estimated Insurance Claims	503	96	-	(2,245)
Incr (Decr) in Other Liabilities	-	(286)	-	-
<b>Net Cash Provided by (Used for) Operating Activities</b>	<b>\$ 12,095</b>	<b>\$ 808</b>	<b>\$ 17,060</b>	<b>\$ (46,473)</b>
<b>Schedule of Noncash Transactions:</b>				
Fixed Asset Acquisitions from Capital Leases	\$ -	\$ 1,971	\$ -	\$ -
Asset Acquisitions from Contributed Capital Transfers from Other Funds	188	7,150	-	-
<b>Total Noncash Transactions</b>	<b>\$ 188</b>	<b>\$ 9,121</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Reconciliation for Nonexpendable Trust:</b>				
Cash and Cash Equivalents, June 30			\$ 41,888	
Cash and Cash Equivalents, Expendable Trust, Investment Trust and Agency			1,061,355	
Cash and Cash Equivalents per Combined Balance Sheet, Trust and Agency			<u>\$ 1,103,243</u>	

STATE OF MONTANA  
 COMBINING BALANCE SHEET  
 COMPONENT UNITS - PROPRIETARY FUND TYPES  
 June 30, 2001  
 (Expressed in Thousands)

	Housing Authority	Health Facilities Authority	State Compensation Insurance (New Fund)	State Compensation Insurance (Old Fund)	Total
<b>Assets:</b>					
Cash/Cash Equivalents	\$ 4,434	\$ 1,766	\$ 31,027	\$ 10,465	\$ 47,692
Receivables (Net)	5,375	148	24,930	2,198	32,651
Due from Primary Government (Note 13)	-	-	7	-	7
Due from Other Funds (Note 13)	-	-	1,419	1	1,420
Long-Term Loans/Notes Receivable	602,575	254	-	-	602,829
Investments (Note 4)	212,836	-	455,760	116,383	784,979
Securities Lending Collateral (Note 4)	-	-	88,689	5,080	93,769
Equipment	82	4	2,765	-	2,851
Accumulated Depreciation	(34)	(3)	(1,457)	-	(1,494)
Intangible Assets	108	-	6,016	-	6,124
Deferred Charges	7,468	-	-	-	7,468
Other Assets	166	-	686	-	852
<b>Total Assets</b>	<b>\$ 833,010</b>	<b>\$ 2,169</b>	<b>\$ 609,842</b>	<b>\$ 134,127</b>	<b>\$ 1,579,148</b>
<b>Liabilities/Fund Equity:</b>					
<b>Liabilities:</b>					
Accounts Payable	\$ 4,875	\$ 2	\$ 2,434	\$ 50	\$ 7,361
Due to Primary Government (Note 13)	56	6	1,102	4	1,168
Due to Other Funds (Note 13)	2	1	3	842	848
Deferred Revenue	-	-	16,157	606	16,763
Lease/Installment Purchase Payable (Note 11)	-	-	34	-	34
Bonds/Notes Payable (Net) (Note 12)	714,021	-	-	-	714,021
Property Held in Trust	3	-	5,381	-	5,384
Securities Lending Liability (Note 4)	-	-	88,689	5,080	93,769
Compensated Absences Payable	60	21	1,161	63	1,305
Estimated Insurance Claims (Note 9)	-	-	325,900	104,700	430,600
Arbitrage Rebate Tax Payable	942	-	-	-	942
<b>Total Liabilities</b>	<b>719,959</b>	<b>30</b>	<b>440,861</b>	<b>111,345</b>	<b>1,272,195</b>
<b>Fund Equity:</b>					
Contributed Capital (Note 17)	-	-	-	154,468	154,468
<b>Retained Earnings:</b>					
Reserved for Debt Service	104,475	-	-	-	104,475
Unreserved	8,576	2,139	168,981	(131,686)	48,010
<b>Total Fund Equity</b>	<b>113,051</b>	<b>2,139</b>	<b>168,981</b>	<b>22,782</b>	<b>306,953</b>
<b>Total Liabilities/Fund Equity</b>	<b>\$ 833,010</b>	<b>\$ 2,169</b>	<b>\$ 609,842</b>	<b>\$ 134,127</b>	<b>\$ 1,579,148</b>

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA  
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS  
COMPONENT UNITS - PROPRIETARY FUND TYPES  
For the Fiscal Year Ended June 30, 2001  
(Expressed in Thousands)

	Housing Authority	Health Facilities Authority	State Compensation Insurance (New Fund)	State Compensation Insurance (Old Fund)	Total
<b>Operating Revenues:</b>					
Charges for Services	\$ 212	\$ 266	\$ 27	\$ -	\$ 505
Investment Earnings	13,547	138	50,971	13,038	77,694
Securities Lending Income	1	13	5,795	394	6,203
Financing Income	39,697	-	-	-	39,697
Contributions/Premiums	-	-	74,508	-	74,508
Grants/Contracts/Donations	4	-	-	-	4
Payroll Taxes	-	-	1	113	114
Other Operating Revenues	-	-	1,465	-	1,465
<b>Total Operating Revenues</b>	<b>53,461</b>	<b>417</b>	<b>132,767</b>	<b>13,545</b>	<b>200,190</b>
<b>Operating Expenses:</b>					
Personal Services	547	110	11,083	-	11,740
Contractual Services	2,666	34	6,388	1,122	10,210
Supplies/Materials	24	3	1,031	-	1,058
Benefits/Claims (Note 3)	-	-	73,785	691	74,476
Depreciation	8	-	294	-	302
Amortization	39	-	1,056	-	1,095
Utilities/Rent	41	18	208	-	267
Communications	38	4	1,062	-	1,104
Travel	71	18	185	-	274
Repair/Maintenance	68	-	540	-	608
Interest Expense	40,715	-	-	-	40,715
Securities Lending Expense	1	13	5,643	385	6,042
Arbitrage Rebate Tax	715	-	-	-	715
Dividends	-	-	4,995	-	4,995
Other Operating Expenses	207	18	2,484	360	3,069
<b>Total Operating Expenses</b>	<b>45,140</b>	<b>218</b>	<b>108,754</b>	<b>2,558</b>	<b>156,670</b>
<b>Operating Income (Loss)</b>	<b>8,321</b>	<b>199</b>	<b>24,013</b>	<b>10,987</b>	<b>43,520</b>
<b>Nonoperating Revenues (Expenses):</b>					
Gain (Loss) Sale of Fixed Assets	-	-	(41)	-	(41)
Federal Assistance	241	-	-	-	241
<b>Total Nonoperating Revenues (Expenses)</b>	<b>241</b>	<b>-</b>	<b>(41)</b>	<b>-</b>	<b>200</b>
<b>Income (Loss) Before Operating Transfers</b>	<b>8,562</b>	<b>199</b>	<b>23,972</b>	<b>10,987</b>	<b>43,720</b>
Operating Transfers In (Note 13)	-	-	6,765	-	6,765
Operating Transfers Out (Note 13)	-	-	-	(6,765)	(6,765)
<b>Net Income (Loss)</b>	<b>8,562</b>	<b>199</b>	<b>30,737</b>	<b>4,222</b>	<b>43,720</b>
<b>Retained Earnings - July 1 -</b>					
As Previously Reported	104,489	1,940	139,257	(135,908)	109,778
Prior Period Adjustments (Note 3)	-	-	(1,013)	-	(1,013)
<b>Retained Earnings - July 1 -</b>					
As Restated	104,489	1,940	138,244	(135,908)	108,765
<b>Retained Earnings - June 30</b>	<b>\$ 113,051</b>	<b>\$ 2,139</b>	<b>\$ 168,981</b>	<b>\$ (131,686)</b>	<b>\$ 152,485</b>

The notes to the financial statements are an integral part of this statement.

FY00 Financial Section

Auditor's Report & Findings

Corrective Action Plan

Summary Schedule of Prior Audit Findings

STATE OF MONTANA  
 COMBINING STATEMENT OF CASH FLOWS  
 COMPONENT UNITS - PROPRIETARY FUND TYPES  
 For the Fiscal Year Ended June 30, 2001  
 (Expressed in Thousands)

	Housing Authority	Health Facilities Authority	State Compensation Insurance (New Fund)	State Compensation Insurance (Old Fund)	Total
<b>Cash Flows from Operating Activities:</b>					
Receipts from Sales and Services	\$ 149	\$ 259	\$ 76,695	\$ (2)	\$ 77,101
Collections of Principal and Interest on Loans	98,581	-	-	-	98,581
Cash Payments for Loans	(114,763)	-	-	-	(114,763)
Payments to Suppliers for Goods and Services	(3,275)	(95)	(12,726)	(1,142)	(17,238)
Payments to Employees	(533)	(113)	(10,796)	-	(11,442)
Cash Payments for Claims	-	-	(61,422)	(13,893)	(75,315)
Collection of Payroll Taxes	-	-	-	98	98
Other Operating Revenues	9	-	1,491	-	1,500
Other Operating Payments	-	-	(4,995)	-	(4,995)
Net Cash Provided by (Used for)					
Operating Activities	(19,832)	51	(11,753)	(14,939)	(46,473)
<b>Cash Flows from Noncapital</b>					
<b>Financing Activities:</b>					
Payment of Principal and Interest on Bonds and Notes	(92,510)	-	-	-	(92,510)
Proceeds from Issuance of Bonds and Notes	142,940	-	-	-	142,940
Payment of Bond Issuance Costs	(1,452)	-	-	-	(1,452)
Premium Paid on Refunding Bonds	(88)	-	-	-	(88)
Collection of Taxes	-	-	1	-	1
Transfers to Other Funds	-	-	-	(6,765)	(6,765)
Transfers from Other Funds	-	-	6,765	-	6,765
Federal Assistance	241	-	-	-	241
Net Cash Provided by (Used for)					
Noncapital Financing Activities	49,131	-	6,766	(6,765)	49,132
<b>Cash Flows from Capital and Related</b>					
<b>Financing Activities:</b>					
Acquisition of Fixed Assets	-	-	(1,337)	-	(1,337)
Proceeds from Sale of Fixed Assets	-	-	(1)	-	(1)
Net Cash Used for Capital and					
Related Financing Activities	-	-	(1,338)	-	(1,338)
<b>Cash Flows from Investing Activities:</b>					
Purchase of Investments	(402,994)	-	(138,856)	(29,155)	(571,005)
Proceeds from Sales or Maturities of Investments	361,965	915	112,748	43,702	519,330
Proceeds from Securities Lending Transactions	-	18	5,998	411	6,427
Interest and Dividends on Investments	13,142	147	33,377	8,633	55,299
Payment of Securities Lending Costs	-	(18)	(5,847)	(402)	(6,267)
Cash Payments for Loans	-	(126)	-	-	(126)
Net Cash Provided by (Used for)					
Investing Activities	(27,887)	936	7,420	23,189	3,658
Net Increase (Decrease) in Cash and Cash Equivalents	1,412	987	1,095	1,485	4,979
Cash and Cash Equivalents, July 1	3,022	779	29,932	8,980	42,713
Cash and Cash Equivalents, June 30	\$ 4,434	\$ 1,766	\$ 31,027	\$ 10,465	\$ 47,692

The notes to the financial statements are an integral part of this statement.

	Housing Authority	Health Facilities Authority	State Compensation Insurance (New Fund)	State Compensation Insurance (Old Fund)	Total
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>					
Operating Income (Loss)	\$ 8,321	\$ 199	\$ 24,013	\$ 10,987	\$ 43,520
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by (Used for)</b>					
<b>Operating Activities:</b>					
Depreciation	47	-	294	-	341
Amortization	624	-	1,056	-	1,680
Interest Expense	40,091	-	-	-	40,091
Securities Lending Expense	-	13	5,643	385	6,041
Interest on Investments	(13,547)	(138)	(50,971)	(13,038)	(77,694)
Securities Lending Income	-	(13)	(5,795)	(394)	(6,202)
Arbitrage Rebate Tax	715	-	-	-	715
<b>Change in Assets and Liabilities:</b>					
Decr (Incr) in Accounts Receivable	-	(52)	(3,137)	10	(3,179)
Decr (Incr) in Due from Other Funds	-	-	(930)	(1)	(931)
Decr (Incr) in Due from Primary Government	-	-	(3)	11	8
Decr (Incr) in inventories	-	-	27	-	27
Decr (Incr) in Long-Term Loans/Notes Receivable	(55,517)	45	-	-	(55,472)
Incr (Decr) in Deferred Charges	211	-	-	-	211
Decr (Incr) in Other Assets	(670)	-	(150)	16	(804)
Incr (Decr) in Accounts Payable	(119)	1	1,115	38	1,035
Incr (Decr) in Due to Other Funds	-	(5)	(400)	342	(63)
Incr (Decr) in Due to Primary Government	-	4	304	1	309
Incr (Decr) in Deferred Revenue	-	-	1,564	(51)	1,513
Incr (Decr) in Property Held in Trust	-	-	4,383	-	4,383
Incr (Decr) in Compensated Absences Payable	12	(3)	234	-	243
Incr (Decr) in Estimated insurance Claims	-	-	11,000	(13,245)	(2,245)
<b>Net Cash Provided by (Used for)</b>					
Operating Activities	\$ (19,832)	\$ 51	\$ (11,753)	\$ (14,939)	\$ (46,473)

STATE OF MONTANA  
 COMBINING STATEMENT OF PLAN NET ASSETS  
 COMPONENT UNITS - PENSION TRUST FUNDS  
 June 30, 2001  
 (Expressed in Thousands)

	Public Employees Retirement Division			
	TRS	PERS	Municipal Police	Fire-Fighters Unified
<b>Assets:</b>				
Cash/Cash Equivalents (Note 4)	\$ 63,933	\$ 101,190	\$ 2,715	\$ 3,375
Receivables (Net):				
Employer Contributions	7,442	2,273	199	160
Employee Contributions	7,296	2,387	126	113
Interest	6,956	8,392	356	337
Other Receivables	3	26	-	1
Due from Primary Government (Note 13)	128	59	6,148	5,369
Due from Other Funds (Note 13)	382	680	-	-
Long-Term Notes/Loans Receivable	-	446	-	-
Investments at Fair Value:				
Equity in Pooled Investments (Note 4)	1,836,566	2,284,598	109,898	104,625
Other Investments (Note 4)	313,422	379,921	8,086	7,260
Securities Lending Collateral (Note 4)	91,502	113,424	5,639	5,353
Land	35	-	-	-
Buildings/Improvements	158	-	-	-
Equipment	137	5	-	-
Accumulated Depreciation	(220)	(2)	-	-
Intangible Assets	4,249	-	-	-
<b>Total Assets</b>	<b>\$ 2,331,989</b>	<b>\$ 2,893,399</b>	<b>\$ 133,167</b>	<b>\$ 126,593</b>
<b>Liabilities:</b>				
Accounts Payable	\$ 560	\$ 722	\$ -	\$ -
Due to Primary Government (Note 13)	80	108	-	-
Due to Other Funds (Note 13)	1	6	55	44
Deferred Revenue	-	90	4	9
Lease/Installment Purchase Payable (Note 11)	570	-	-	-
Bonds/Notes Payable (Net) (Note 12)	-	670	-	-
Securities Lending Liability (Note 4)	91,502	113,424	5,639	5,353
Compensated Absences Payable (Note 1)	89	219	-	-
<b>Total Liabilities</b>	<b>92,782</b>	<b>115,239</b>	<b>5,698</b>	<b>5,406</b>
<b>Fund Balances Reserved for</b>				
Defined Benefit Plans	2,239,207	2,777,338	127,469	121,187
<b>Fund Balances Reserved for</b>				
Defined Contribution Plan (Note 6)	-	(585)	-	-
<b>Fund Balances Reserved for</b>				
Education Fund (Note 6)	-	1,407	-	-
<b>Total Fund Balances Reserved for</b>				
Employee Pension Benefits	<b>\$ 2,239,207</b>	<b>\$ 2,778,160</b>	<b>\$ 127,469</b>	<b>\$ 121,187</b>

The notes to the financial statements are an integral part of this statement.

Sheriffs	Highway Patrol	Judges	Game Wardens	Volunteer Fire-Fighters	Total
\$ 5,897	\$ 2,640	\$ 1,201	\$ 1,338	\$ 1,196	\$ 183,485
164	-	-	-	-	10,238
155	-	-	-	-	10,077
352	215	117	93	64	16,882
-	-	-	10	-	40
-	87	-	-	-	11,791
1	1	-	5	-	1,069
31	-	-	-	-	477
109,103	66,386	36,155	29,452	15,188	4,591,971
8,227	5,324	3,185	2,315	1,298	729,038
5,587	3,411	1,855	1,492	1,009	229,272
-	-	-	-	-	35
-	-	-	-	-	158
-	-	-	-	-	142
-	-	-	-	-	(222)
-	-	-	-	-	4,249
\$ 129,517	\$ 78,064	\$ 42,513	\$ 34,705	\$ 18,755	\$ 5,788,702
\$ 7	\$ -	\$ -	\$ 9	\$ -	\$ 1,298
-	-	-	-	-	168
43	22	5	30	42	248
3	6	-	3	-	115
-	-	-	-	-	570
-	-	-	-	-	670
5,587	3,411	1,855	1,492	1,009	229,272
-	-	-	-	-	308
5,640	3,439	1,860	1,534	1,051	232,649
123,877	74,625	40,653	33,171	17,704	5,555,231
-	-	-	-	-	(585)
-	-	-	-	-	1,407
\$ 123,877	\$ 74,625	\$ 40,653	\$ 33,171	\$ 17,704	\$ 5,556,053

STATE OF MONTANA  
 COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS  
 COMPONENT UNITS - PENSION TRUST FUNDS  
 For the Fiscal Year Ended June 30, 2001  
 (Expressed in Thousands)

	TRS	PERS	Public Employees Retirement Division	
			Municipal Police	Fire-Fighters Unified
<b>Additions:</b>				
Contributions/Premiums:				
Employer	\$ 50,990	\$ 53,976	\$ 3,015	\$ 2,373
Employee	48,278	57,098	1,913	1,742
Other Contributions	611	632	6,149	5,368
Net Investment Earnings:				
Investment Earnings	(117,023)	(146,023)	(6,096)	(5,938)
Administrative Investment Expense	(2,356)	(2,899)	(88)	(77)
Securities Lending Income	8,216	10,198	494	464
Securities Lending Expense	(7,887)	(9,789)	(475)	(447)
Contracts/Grants/Donations	-	1	-	-
Other Additions	6	26	-	-
<b>Total Additions</b>	<b>(19,165)</b>	<b>(36,780)</b>	<b>4,912</b>	<b>3,485</b>
<b>Deductions:</b>				
Benefits	118,843	101,546	9,125	8,018
Refunds	5,370	12,063	430	44
Administrative Expenses:				
Personal Services	639	1,063	-	-
Contractual Services	200	1,154	-	-
Supplies/Materials	31	76	-	-
Depreciation	17	(5)	-	-
Amortization	457	-	-	-
Utilities/Rent	32	78	-	-
Communications	30	84	-	-
Travel	22	39	-	-
Repair/Maintenance	43	24	-	-
Interest Expense	227	25	-	-
Loss Sale of Fixed Assets	-	13	-	-
Other Operating Expenses	18	-	55	43
Local Assistance	-	-	-	-
<b>Total Deductions</b>	<b>125,929</b>	<b>116,160</b>	<b>9,610</b>	<b>8,105</b>
<b>Net Increase (Decrease)</b>	<b>(145,094)</b>	<b>(152,940)</b>	<b>(4,698)</b>	<b>(4,620)</b>
<b>Fund Balances Reserved for</b>				
Employee Pension Benefits - July 1 -				
As Previously Reported	2,384,301	2,931,096	132,167	125,807
Prior Period Adjustments	-	4	-	-
<b>Fund Balances Reserved for</b>				
Employee Pension Benefits - July 1 -				
As Restated	2,384,301	2,931,100	132,167	125,807
<b>Fund Balances Reserved for</b>				
Defined Benefit Plans - June 30	2,239,207	2,777,338	127,469	121,187
<b>Fund Balances Reserved for</b>				
Defined Contribution Plan - June 30	-	(585)	-	-
<b>Fund Balances Reserved for</b>				
Education Fund - June 30	-	1,407	-	-
<b>Total Fund Balances Reserved for</b>				
Employee Pension Benefits - June 30	<b>\$ 2,239,207</b>	<b>\$ 2,778,160</b>	<b>\$ 127,469</b>	<b>\$ 121,187</b>

The notes to the financial statements are an integral part of this statement.



Sheriffs	Highway Patrol	Judges	Game Wardens	Volunteer Fire-Fighters	Total
\$ 2,227	\$ 1,925	\$ 943	\$ 1,366	\$ -	\$ 116,815
2,223	711	256	1,303	-	113,524
39	1,057	-	3	1,003	14,862
(6,310)	(3,782)	(2,133)	(1,580)	(205)	(289,090)
(88)	(58)	(35)	(23)	(58)	(5,682)
490	305	167	130	86	20,550
(472)	(293)	(161)	(125)	(82)	(19,731)
-	-	-	-	-	1
-	-	-	-	-	32
(1,891)	(135)	(963)	1,074	744	(48,719)
3,293	4,624	1,430	1,234	884	248,997
378	86	-	217	-	18,588
-	-	-	-	-	1,702
-	-	-	-	-	1,354
-	-	-	-	-	107
-	-	-	-	-	12
-	-	-	-	-	457
-	-	-	-	-	110
-	-	-	-	-	114
-	-	-	-	-	61
-	-	-	-	-	67
-	-	-	-	-	252
-	-	-	-	-	13
43	22	5	30	42	258
-	-	-	-	12	12
3,714	4,732	1,435	1,481	938	272,104
(5,605)	(4,867)	(2,398)	(407)	(194)	(320,823)
129,482	79,492	43,051	33,578	17,898	5,876,872
-	-	-	-	-	4
129,482	79,492	43,051	33,578	17,898	5,876,876
123,877	74,625	40,653	33,171	17,704	5,555,231
-	-	-	-	-	(585)
-	-	-	-	-	1,407
\$ 123,877	\$ 74,625	\$ 40,653	\$ 33,171	\$ 17,704	\$ 5,556,053

STATE OF MONTANA  
 COMBINING BALANCE SHEET  
 COMPONENT UNITS - ALL HIGHER EDUCATION FUNDS  
 June 30, 2001  
 (Expressed in Thousands)

	Current Funds			
	Unrestricted			
	General Operating	Designated	Auxiliary	Restricted
<b>Assets:</b>				
Cash/Cash Equivalents	\$ 15,665	\$ 23,669	\$ 17,130	\$ 5,620
Receivables (Net)	3,688	770	1,158	19,924
Interfund Loans Receivable (Note 13)	200	14,562	-	-
Due from Other Governments	18	-	-	6,703
Due from Primary Government (Note 13)	433	663	53	1,874
Due from Other Funds (Note 13)	999	2,681	144	652
Inventories	79	1,446	2,187	-
Equity in Pooled Investments (Note 4)	-	-	-	-
Long-Term Loans/Notes Receivable	78	-	-	-
Advances to Other Funds	-	75	5	-
Investments (Note 4)	-	243	-	11
Securities Lending Collateral (Note 4)	-	-	-	-
Land	-	-	-	-
Buildings/Improvements	-	-	-	-
Equipment	-	-	-	-
Other Fixed Assets	-	-	-	-
Construction in Progress	-	-	-	-
Intangible Assets	-	-	-	-
Deferred Charges	-	-	-	-
Other Assets	3,416	2,072	276	464
<b>Total Assets</b>	<b>\$ 24,576</b>	<b>\$ 46,181</b>	<b>\$ 20,953</b>	<b>\$ 36,248</b>
<b>Liabilities/Fund Balances:</b>				
<b>Liabilities:</b>				
Accounts Payable	\$ 3,970	\$ 1,732	\$ 1,505	\$ 1,237
Interfund Loans Payable (Note 13)	500	-	-	14,262
Advances from Other Funds	5	67	67	5
Due to Other Governments	5,524	-	-	145
Due to Primary Government (Note 13)	29	902	13	14
Due to Other Funds (Note 13)	7,674	2,724	1,541	7,242
Deferred Revenue	7,222	1,707	862	-
Lease/Installment Purchase Payable (Note 11)	-	-	-	-
Bonds/Notes Payable (Note 12)	78	-	-	-
Property Held in Trust	98	81	732	9
Securities Lending Liability (Note 4)	-	-	-	-
Early Retirement Benefits Payable (Note 12)	25	-	1	-
Compensated Absences Payable (Note 1)	26,130	6,126	2,589	275
<b>Total Liabilities</b>	<b>51,255</b>	<b>13,339</b>	<b>7,310</b>	<b>23,189</b>
<b>Fund Balances:</b>				
Net Investment in Plant	-	-	-	-
Reserved for:				
Encumbrances	263	15	-	2
Debt Service	-	-	-	-
Student Loans/Endowments	-	-	-	-
Construction	-	-	-	-
Unreserved	(26,942)	32,827	13,643	13,057
<b>Total Fund Balances</b>	<b>(26,679)</b>	<b>32,842</b>	<b>13,643</b>	<b>13,059</b>
<b>Total Liabilities/Fund Balances</b>	<b>\$ 24,576</b>	<b>\$ 46,181</b>	<b>\$ 20,953</b>	<b>\$ 36,248</b>

The notes to the financial statements are an integral part of this statement.

Fiduciary Funds				Plant Funds				
Student Loans	Endowments	Agency	Unexpended	Renewal and Replacement	Retirement of Indebtedness	Investment in Plant	Total	
\$ 3,689	\$ 1,801	\$ 1,237	\$ 11,383	\$ 19,967	\$ 5,278	\$ -	\$ 106,439	
29,416	13	435	105	48	79	-	55,636	
-	-	-	-	-	-	-	14,762	
82	-	-	-	-	-	-	6,803	
1	-	773	146	13	-	-	3,956	
104	-	15,133	371	851	115	-	21,050	
-	-	-	-	-	-	-	3,712	
305	3,031	-	-	-	-	-	3,336	
249	-	-	-	-	-	-	327	
-	-	-	90	26	-	-	196	
-	1,278	-	-	2,697	-	-	4,229	
-	189	-	-	-	-	-	189	
-	-	-	-	-	-	13,700	13,700	
-	-	-	-	-	-	594,947	594,947	
-	-	-	-	-	-	118,442	118,442	
-	-	-	-	-	-	95,870	95,870	
-	-	-	7,198	1,831	-	6,632	15,661	
-	-	-	-	-	-	3,907	3,907	
-	-	-	-	-	2,047	-	2,047	
-	310	257	19	4	-	-	6,818	
\$ 33,846	\$ 6,622	\$ 17,835	\$ 19,312	\$ 25,437	\$ 7,519	\$ 833,498	1,072,027	
\$ 13	\$ -	\$ 9,448	\$ 1,165	\$ 452	\$ 1,547	\$ -	\$ 21,069	
-	-	-	-	-	-	-	14,762	
-	-	-	-	-	-	48	192	
-	-	1,056	-	-	-	-	6,725	
3	-	1,083	115	3	-	-	2,162	
58	33	1,945	447	226	36	-	21,926	
-	-	-	316	88	450	-	10,645	
-	-	-	-	-	-	1,245	1,245	
-	-	-	10,320	-	2,064	204,933	217,395	
10	-	4,303	-	-	-	-	5,233	
-	189	-	-	-	-	-	189	
-	-	-	-	-	-	-	26	
-	-	-	-	-	-	-	35,120	
84	222	17,835	12,363	769	4,097	206,226	336,689	
-	-	-	-	-	-	628,025	628,025	
-	-	-	-	-	-	-	280	
-	-	-	-	-	(201)	-	(201)	
31,685	4,748	-	-	-	7	-	36,440	
-	-	-	1,129	1,328	-	-	2,457	
2,077	1,652	-	5,820	23,340	3,616	(753)	68,337	
33,762	6,400	-	6,949	24,668	3,422	627,272	735,338	
\$ 33,846	\$ 6,622	\$ 17,835	\$ 19,312	\$ 25,437	\$ 7,519	\$ 833,498	\$ 1,072,027	

STATE OF MONTANA  
STATEMENT OF CHANGES IN FUND BALANCE  
COMPONENT UNITS - ALL HIGHER EDUCATION FUNDS  
For the Fiscal Year Ended June 30, 2001  
(Expressed in Thousands)

	Current Funds			
	Unrestricted			
	General Operating	Designated	Auxiliary	Restricted
<b>Revenues/Other Additions:</b>				
Tuition/Fees	\$ 110,506	\$ 17,979	\$ 10,987	\$ 55
Federal Grants/Contracts	4,281	136	27	89,061
State Grants/Contracts	-	1,304	33	14,505
Local Grants/Contracts	-	5	-	1,115
Private Gifts/Grants/Donations	-	3,355	233	41,632
Sales/Services-Educational Activities	1,080	3,740	87	147
Sales/Services-Designated/Auxiliary Enterprises	72	22,535	57,850	302
Indirect Costs Recovered	44	13,703	-	58
Investment Earnings	2,021	1,173	1,597	458
Securities Lending Income	-	7	-	-
Acquisition of Long-Lived Assets	-	-	-	-
Retirement of Indebtedness	-	-	-	-
Other Revenues/Additions	934	6,780	2,028	36,674
Total Revenues/Other Additions	118,938	70,532	72,842	184,007
Intrafund Revenues/Other Additions	-	(15)	-	-
Net Revenues/Other Additions	118,938	70,517	72,842	184,007
<b>Expenditures/Other Deductions:</b>				
Instruction	121,777	8,027	-	10,353
Research	15,913	12,483	-	72,195
Public Service	8,148	7,229	-	19,454
Academic Support	21,602	9,111	-	3,608
Student Services	18,904	14,861	-	3,099
Institutional Support	19,685	6,753	-	2,168
Scholarships/Fellowships	9,743	2,023	38	63,120
Auxiliary Enterprises	1	51	60,015	141
Operation/Maintenance of Plant	27,168	238	-	48
Expended for Plant	-	4	-	48
Debt Services	184	205	63	25
Capital Outlay	5,172	2,743	145	6,251
Securities Lending	-	6	-	-
Disposal of Long-Lived Assets	-	-	-	-
Debt Incurred	-	-	-	-
Other Expenditures/Deductions	35	28	-	383
Total Expenditures/Other Deductions	248,332	63,762	60,261	180,893
Intrafund Expenditures/Other Deductions	-	(15)	-	-
Net Expenditures/Other Deductions	248,332	63,747	60,261	180,893
<b>Transfers In (Out)/Other Additions (Deductions):</b>				
Transfers from State General Fund	113,345	2,735	-	1,665
Millage Transfers	15,280	-	-	-
Mandatory Transfers	(33)	(942)	(9,684)	(5)
Nonmandatory Transfers	(1,568)	(1,494)	(2,036)	(246)
Transfers from Primary Government	990	269	271	15
Transfers to Primary Government	-	-	-	-
Total Transfers In (Out) (Note 13)	128,014	568	(11,449)	1,429
Move Equity to Investment in Plant	-	-	-	-
Total Transfers In (Out)/Other Additions (Deductions)	128,014	568	(11,449)	1,429
Net Increase (Decrease) in Fund Balances	(1,380)	7,338	1,132	4,543
Fund Balances - July 1 - As Previously Reported	(23,918)	26,826	13,161	12,271
Prior Period Adjustments (Note 3)	(1,381)	(1,326)	(650)	(3,751)
Fund Balances - July 1 - As Restated	(25,299)	25,500	12,511	8,520
Residual Equity Transfers (Note 13)	-	4	-	(4)
Fund Balances - June 30	\$ (26,679)	\$ 32,842	\$ 13,643	\$ 13,059

The notes to the financial statements are an integral part of this statement.

Fiduciary Funds			Plant Funds		
Student Loans	Endowments	Unexpended	Renewal and Replacement	Retirement of Indebtedness	Investment in Plant
\$ -	\$ -	\$ 5,035	\$ 757	\$ 5,347	\$ -
507	-	-	-	11	-
119	-	-	-	-	-
-	-	-	-	-	-
14	1	1,077	22	-	-
-	-	28	-	-	-
18	-	163	169	1,185	-
-	-	-	-	-	-
454	(293)	1,045	1,257	339	-
-	14	-	-	-	-
-	-	-	-	-	40,209
-	-	-	-	-	8,547
353	-	2,247	4,069	282	-
1,465	(278)	9,595	6,274	7,164	48,756
1,465	(278)	9,595	6,274	7,164	48,756
-	-	-	-	-	-
-	-	-	1	-	-
-	-	-	-	-	-
31	-	-	-	-	-
143	-	2	1	-	-
-	-	-	-	-	-
30	1	-	-	-	-
-	-	-	-	-	-
-	-	6,583	6,187	22	150
-	-	398	60	19,066	-
-	-	(61)	(122)	-	-
-	14	-	-	-	-
-	-	-	-	-	13,436
-	-	-	-	-	3,039
379	1	-	-	-	-
583	16	6,922	6,127	19,088	16,625
-	-	-	-	-	-
583	16	6,922	6,127	19,088	16,625
-	-	-	-	-	-
-	-	-	-	-	-
(8)	69	(2,894)	197	13,410	-
-	-	121	7,638	(2,506)	-
-	-	1,173	566	1,189	-
-	-	(294)	-	(103)	-
(8)	69	(1,892)	8,401	11,990	-
-	-	(32,316)	(2,869)	226	8,239
(8)	69	(34,208)	5,532	12,216	8,239
874	(225)	(31,535)	5,679	292	40,370
32,982	6,635	16,266	18,968	4,060	554,399
(94)	(10)	22,218	23	(932)	32,503
32,888	6,625	38,484	18,991	3,128	586,902
-	-	-	(2)	2	-
\$ 33,762	\$ 6,400	\$ 6,949	\$ 24,668	\$ 3,422	\$ 627,272

STATE OF MONTANA  
 STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, TRANSFERS AND OTHER CHANGES  
 COMPONENT UNITS - HIGHER EDUCATION FUND TYPE  
 For the Fiscal Year Ended June 30, 2001  
 (Expressed in Thousands)

	Current Funds			
	Unrestricted			
	General Operating	Designated	Auxiliary	Restricted
<b>Revenues:</b>				
Tuition/Fees	\$ 110,506	\$ 17,979	\$ 10,987	\$ 55
Federal Grants/Contracts	4,281	136	27	74,432
State Grants/Contracts	-	1,304	33	13,546
Local Grants/Contracts	-	5	-	928
Private Gifts/Grants/Donations	-	3,355	233	39,264
Sales/Services-Educational Activities	1,080	3,740	87	147
Sales/Services-Designated/Auxiliary Enterprises	72	22,350	57,850	302
Indirect Costs Recovered	44	13,703	-	58
Investment Earnings	2,021	1,173	1,597	458
Securities Lending Income	-	7	-	-
Other Revenues	934	6,780	2,028	35,835
<b>Total Revenues</b>	<b>118,938</b>	<b>70,532</b>	<b>72,842</b>	<b>165,025</b>
Intrafund Revenues	-	(15)	-	-
<b>Net Revenues</b>	<b>118,938</b>	<b>70,517</b>	<b>72,842</b>	<b>165,025</b>
<b>Expenditures:</b>				
Educational and General:				
Instruction	121,777	8,027	-	9,905
Research	15,913	12,483	-	58,169
Public Service	8,148	7,229	-	18,923
Academic Support	21,602	9,111	-	3,607
Student Services	18,904	14,861	-	2,979
Institutional Support	19,685	6,753	-	1,938
Scholarships/Fellowships	9,743	2,023	38	63,108
Operation/Maintenance of Plant	27,168	238	-	48
Other Expenditures	35	28	-	383
<b>Total Educational and General Expenditures</b>	<b>242,975</b>	<b>60,753</b>	<b>38</b>	<b>159,060</b>
Intrafund Expenditures	-	(15)	-	-
<b>Net Educational and General Expenditures</b>	<b>242,975</b>	<b>60,738</b>	<b>38</b>	<b>159,060</b>
Auxiliary Enterprises	1	51	60,015	141
Debt Services	184	205	63	25
Capital Outlay	5,172	2,747	145	6,299
Securities Lending	-	6	-	-
<b>Total Expenditures</b>	<b>248,332</b>	<b>63,747</b>	<b>60,261</b>	<b>165,525</b>
<b>Transfers In (Out):</b>				
Transfers from State General Fund	113,345	2,735	-	500
Millage Transfers	15,280	-	-	-
Mandatory Transfers	(33)	(942)	(9,684)	(5)
Nonmandatory Transfers	(1,568)	(1,494)	(2,036)	(246)
Transfers from Primary Government	990	269	271	15
<b>Total Transfers In (Out) (Note 13)</b>	<b>128,014</b>	<b>568</b>	<b>(11,449)</b>	<b>264</b>
<b>Other Additions/Deductions:</b>				
Excess of Restricted Receipts Over Transfers to Revenue	-	-	-	4,779
<b>Total Other Additions (Deductions)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,779</b>
<b>Net Increase (Decrease) in Fund Balances</b>	<b>\$ (1,380)</b>	<b>\$ 7,338</b>	<b>\$ 1,132</b>	<b>\$ 4,543</b>

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2001

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements for the State of Montana have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements of the Higher Education Funds have been prepared in conformity with GAAP for colleges and universities as prescribed by the American Institute of Certified Public Accountants.

**A. Reporting Entity** - For financial reporting purposes, the State of Montana has included all funds and account groups which comprise the State of Montana (the primary government) and its component units. The component units are entities for which the State is financially accountable, or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.

**Discrete Component Units**

These component units are entities which are legally separate from the State because they possess corporate powers, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. Complete financial statements of the individual component units, which issue separate financial statements, can be obtained from their respective administrative offices. The component units' columns of the combined financial statements include the financial data of these entities:

**Housing Authority** (Proprietary Fund Type/State Special Revenue Fund Type) - This Authority, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor. It was created in 1975 to facilitate the availability of decent, safe and sanitary housing to persons and families of lower income. The Board issues negotiable notes and bonds to fulfill its purposes. The total amount of notes and bonds outstanding at any time may not exceed \$975 million. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. The Authority is audited annually by the Legislative Auditor. Its report is issued under separate cover and available at 836 Front Street, PO Box 200528, Helena, MT 59620-0528.

**Health Facilities Authority** (Proprietary Fund Type) - This Authority, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor with the advice and consent of the Senate. Its purpose is to contain future health care costs by offering debt financing or refinancing at reduced rates to Montana non-profit private and public health care institutions for purchases of capital equipment and buildings. The Board issues revenue bonds to fulfill its purpose. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. Individual audit reports are issued by the Legislative Auditor every two years. Its report is issued under separate cover and available at 2401 Colonial Drive, 3<sup>rd</sup> Floor, PO Box 200506, Helena, MT 59620-0506.

**State Compensation Insurance Fund (New and Old)** (Proprietary Fund Type) - The Fund is a quasi-governmental corporation governed by a board appointed by the Governor. The Fund provides workers compensation insurance. The Fund consists of two separate entities, the New Fund and the Old Fund. The New Fund covers claims incurred after June 30, 1990, and is financed by member (employer) premiums. The Old Fund covers claims incurred before July 1, 1990. In 1999, the 56th Legislature determined that the Old Fund was adequately funded and discontinued the Old Fund Liability Tax. Administrative operations and budgets are reviewed by the Governor and the legislature. The Fund is audited annually by the Legislative Auditor. Its report is issued under separate cover and available at 5 South Last Chance Gulch, Helena, MT 59601.

**Teachers Retirement System** (Pension Trust Fund) - This retirement system is a legally separate entity with a board appointed by the Governor. Its purpose is to provide retirement, disability, death and lump sum payments to members of Montana's public teaching profession. The administrative costs of the Teachers Retirement System are paid from investment earnings of the Fund. The System is funded from employer and employee contributions and investment earnings. The system is audited annually by the Legislative Auditor. Its report is issued under separate cover and is available at 1500 Sixth Avenue, PO Box 200139, Helena, MT 59620-0139.

**Public Employees Retirement Board** (Pension Trust Funds/Expendable Trust Funds) - The Board, appointed by the Governor, administers eight separate retirement systems for the purpose of providing retirement, disability, death and lump sum payments to each system member. These legally separate entities include the Public Employees, the Municipal Police Officers, the Game Wardens and Peace Officers, the Sheriffs, the Judges, the Highway Patrol

FY00 Financial Section

Auditor's Report & Findings

Corrective Action Plan

Summary Schedule of Prior Audit Findings

Officers and the Firefighters Unified Retirement Systems, as well as the Volunteer Firefighters Compensation Act. As of July 1, 1999, the Board also administers the State of Montana Deferred Compensation Program.

The Public Employees Retirement System (PERS) is funded from employer and employee contributions and investment earnings. The PERS also accounts for the administrative costs, paid from investment earnings, of the system. The Municipal Police Officers Retirement System is funded from member, state and city contributions. The Game Wardens and Peace Officers Retirement System is funded by employer and employee contributions. The Sheriffs Retirement System is funded by member and county contributions. The Judges Retirement System is funded by member and state contributions. The Highway Patrol Officers Retirement System is funded by member and state contributions. The Firefighters Unified Retirement System is funded by employer and employee contributions as well as a portion of insurance premium taxes collected by the State. The Volunteer Firefighters Compensation Act is funded by contributions by the State of a percentage of fire insurance premium taxes collected. The State of Montana Deferred Compensation Program is funded from member contributions.

The Board is a discretely presented component unit Pension Trust Fund for the eight separate retirement systems and an Expendable Trust Fund for the Deferred Compensation Program that is audited annually by the Legislative Audit Division. Its report is issued under separate cover and is available at 100 N Park, PO Box 200131, Helena, MT 59620-0131.

Universities and Colleges (Higher Education Funds) - The State Board of Regents has responsibility for the following institutions: University of Montana-Missoula and the units under it including Montana Tech of the University of Montana, Western Montana College of the University of Montana and the Helena College of Technology; and Montana State University-Bozeman and the units under it including Montana State University-Billings, Montana State University-Northern, and the Great Falls College of Technology. All units are funded through state appropriations, tuition, federal grants, and private donations and grants. Individual audit reports are issued by the Legislative Auditor every two years. The reports are issued under separate cover and are available at the President's Office on each of the campuses or by contacting the Commissioner of Higher Education, 2500 Broadway, PO Box 203101, Helena, MT 59620.

Though the following organizations perform functions related to the higher education units, they are not considered part of Montana's reporting entity: (1) Community Colleges which are considered part of local units of government; (2) the Montana Higher Education Student Assistance Corporation, a private non-profit corporation, and (3) private foundations supporting public education, over which the State exercises neither financial nor administrative control (see Note 18). Entities such as local school districts and local authorities of various kinds are considered part of local units of government and have not been included. The State's support of local public education systems is reported in the General Fund.

**B. Fund Structure** - The State uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

The financial activities of the State of Montana are classified into fund categories and account groups as described below:

#### **GOVERNMENTAL FUNDS**

General Fund - To account for all governmental financial resources except those required to be accounted for in another fund.

Special Revenue Funds - To account for the proceeds of specific revenue sources restricted to expenditure for specified purposes (other than expendable trusts or major capital projects).

Debt Service Funds - To account for resources accumulated for payment of principal and interest on general long-term obligation debt.

Capital Projects Funds - To account for resources used for the acquisition or construction of major capital facilities (other than those financed by proprietary or trust funds).

#### **PROPRIETARY FUNDS**

Enterprise Funds - To account for operations (1) financed and operated similar to private business enterprises, where the intent of the legislature is to finance or recover costs primarily through user charges; or (2) where the legislature has decided periodic determination of revenue earned, expenses incurred, or net income is appropriate.



Internal Service Funds - To account for the financing of goods and services provided by one department or agency to other departments, agencies or other governmental entities on a cost-reimbursement basis.

#### **FIDUCIARY FUNDS**

Trust and Agency Funds - To account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds. These include: (1) Expendable Trust Funds; (2) Nonexpendable Trust Funds; (3) Pension Trust Funds; (4) Agency Funds, and (5) Investment Trust Funds.

#### **ACCOUNT GROUPS**

General Fixed Assets Account Group - To account for all fixed assets of the State, except those accounted for in the Proprietary, Nonexpendable Trust, Pension Trust and Plant Funds.

General Long-Term Obligations Account Group - To account for all long-term obligations of the State, except those accounted for in Proprietary, Nonexpendable Trust, Pension Trust and Plant Funds.

#### **HIGHER EDUCATION (UNIVERSITY AND COLLEGE) FUNDS**

##### Current Funds

###### Unrestricted

General Operating - To account for the portion of financial resources that can be expended for general operations and is free of externally imposed restrictions, except those imposed by the legislature.

Designated - To account for those resources associated with general operations which are separately classified in order to accumulate costs recharged to other funds and to identify special activities of educational departments which are supported by supplemental assessments and the receipt and disposition of special supply and facility fees which are approved for collection beyond normal course fees.

Auxiliary - To account for those financial resources devoted to providing essential on-campus services primarily to students, faculty or staff where a fee relating to the service is charged.

Restricted - To account for the portion of financial resources that can be expended only for purposes imposed by sources external to the Board of Regents and the legislature.

##### Fiduciary Funds

Student Loans - To account for monies, which may be loaned, to students, faculty or staff for purposes related to education, organized research or public services by the higher education units.

Endowments - To account for monies where the principal is available for investment. Investment earnings are to be transferred to (or recorded directly in) appropriate operating funds pursuant to prevailing administrative requirements.

Agency - To account for monies where the State acts in the capacity of a custodian or fiscal agent for individual students, faculty, staff or qualified organizations.

##### Plant Funds

Unexpended - To account for unexpended resources derived from various sources which are used to finance the acquisition/construction of plant assets and the associated liabilities.

Renewal and Replacement - To account for resources used to provide for the renewal and replacement of plant fund assets as distinguished from additions and improvements.

Retirement of Indebtedness - To account for resources accumulated for interest and principal payments and other debt service charges, including contributions to reserves, relating to plant fund indebtedness.

Investment in Plant - To account for all long-lived assets in the service of the higher education unit as well as all associated liabilities.

**C. Basis of Accounting** - The accounting and reporting treatment applied to a fund is determined by its measurement focus. All Governmental Funds and Expendable Trust Funds are accounted for on a current financial resources measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is followed in the Governmental Funds, Expendable Trust Funds and in the Agency Funds for the purpose of asset and liability recognition. Under the modified accrual basis, revenues are susceptible to accrual and recognized when they are measurable and available to pay current period liabilities. Intergovernmental revenues received as reimbursements are recognized based upon the expenditures incurred. Intergovernmental revenues received but not earned are recorded as deferred revenues. All other revenue included

taxes on coal sales, gas and oil production, individual income and other self-assessed taxes is considered available if due within 60 days of fiscal year-end. Based on historical analysis, a liability has been recognized for collected withholding taxes to be refunded in fiscal year 2002. Expenditures are recognized when the related fund liability is incurred, with the following exceptions:

- (1) principal and interest on long-term debt is recognized when due;
- (2) prepayments are accounted for as expenditures in the period of acquisition; and
- (3) inventory items are considered expenditures when purchased.

All Proprietary, Pension Trust, Investment Trust and Nonexpendable Trust Funds are accounted for on an economic resources measurement focus. This means all assets and liabilities associated with these activities are included on their balance sheets. Operating statements for these funds present increases (revenues) and decreases (expenses) in net total assets.

Proprietary, Pension Trust, Investment Trust, Nonexpendable Trust and Higher Education Funds are maintained and reported on the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable. In Higher Education Funds, depreciation expense related to plant fund assets is not recorded; summer session student tuition and fee revenues and expenditures are deferred at June 30 and recorded as revenue and expenditures in the succeeding fiscal year. Unbilled receivables of Proprietary and Higher Education Funds are recognized as revenue.

Significant intrafund transactions and balances have been eliminated.

**D. Proprietary Activity Accounting and Financial Reporting** - Activities accounted for in the States proprietary, non-expendable trust and pension trust funds and proprietary type component units follow GAAP prescribed by the GASB and all Financial Accounting Standards Board standards issued on or before November 30, 1989. Subsequent to this date, the State accounts for these activities as prescribed by the GASB.

**E. Cash/Cash Equivalents** - For all funds, except the Housing Authority in the Component Unit Proprietary Funds, cash and cash equivalents consist of funds deposited by individual funds in the State Treasurers pooled cash account, cash deposits in checking accounts, cash invested in the Short Term Investment Pool, undeposited cash held by individual state agencies, and investments categorized as cash equivalents, which are short-term, highly liquid investments with original maturities of three months or less. The Housing Authority considers cash and cash equivalents to be cash held by the State Treasurer, other cash deposits, and mortgage payments in transit (See Note 4).

**F. Receivables** - This classification, net of estimated uncollectibles, consists primarily of receivables for goods sold and services provided; short-term loans and notes; interest and dividends; taxes due within 60 days of fiscal year-end; and income, withholding and inheritance taxes that are past due. An allowance for uncollectible taxes is provided based upon historical analysis. The allowance for uncollectible taxes at June 30, 2001, was \$10.3 million.

**G. Inventories** - Inventories of materials and supplies are stated at cost. The State allows agencies to use any generally accepted inventory pricing method, but specifies the first-in, first-out method should be appropriate for most agencies.

Governmental and Expendable Trust Funds use the "purchase method," meaning inventory purchases are recorded as expenditures. At fiscal year-end, significant amounts of inventory are shown as a reserve of fund balance, indicating they do not constitute available expendable resources. An exception is the Special Revenue Fund food stamp inventory balance, which is offset by deferred revenue.

Proprietary, Pension Trust, Nonexpendable Trust, Investment Trust and Higher Education Funds report using the "consumption method," meaning inventories are expensed as used.

**H. Investments** - In accordance with the Montana Constitution and the statutorily mandated "Prudent Expert Rule," the State of Montana invests in various types of securities for each portfolio it manages. Certain securities including asset-backed securities, variable-rate instruments, zero coupon bonds, preferred stocks, and mortgage-backed securities are purchased for portfolio diversification and a competitive rate of return. Most investments are reported at fair value in the balance sheet. Investments are reported by type in the disclosure of custodial credit risk for each investment portfolio (See Note 4 on Cash/Cash Equivalents and Investments).

**I. Equity in Pooled Investments** - The Montana Board of Investments manages the State's Unified Investment Program which includes five internal investment pools. Participation in the pools is limited to Expendable Trust Funds; including the Deferred Compensation Plan, Nonexpendable Trust Funds, Pension Trust Funds, Higher Education Endowment and Trust Funds, and specific trusts established within the State Special Revenue Fund. The participants' investments in the pools are reported at fair value in the balance sheet within the individual funds (See Note 4 on Cash/Cash Equivalents and Investments).

**J. Fixed Assets** - Fixed asset valuation is based on actual historical cost or, in the case of donations, fair market value on the date donated. General government infrastructure fixed assets and interest expenditures for general fixed assets are not capitalized. Infrastructure assets of primary government and component unit proprietary activities are capitalized. Interest incurred during the construction of fixed assets for proprietary funds and higher education units is capitalized.

Fixed assets are not depreciated in the General Fixed Assets Account Group. Purchases of such assets are recorded as expenditures in the appropriate governmental fund. Fixed assets in Proprietary, Nonexpendable Trust and Pension Trust Funds are accounted for within their respective funds and are depreciated. Expendable Trust Funds do not report fixed assets within their funds because the assets are purchased by other funds. Depreciation is on a straight-line basis with estimated useful lives of 25 to 60 years for buildings, 20 years for improvements and 3 to 10 years for equipment. Fixed assets and intangible assets for Higher Education units are accounted for in the Investment in Plant Fund and are not depreciated.

The capitalization threshold for recording fixed assets is \$5,000. Purchases under this threshold are recorded as expenditures/expenses in the current period.

**K. Deferred Revenue** - Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the State has a legal claim to the resources, the liability for deferred revenue is removed from the Combined Balance Sheet and revenue is recognized.

**L. Long-Term Obligations** - Long-term obligations expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group. Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from current expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the General Long-Term Debt Account Group.

Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

**M. Capital Leases** - A capital lease is generally defined by Statement of Financial Accounting Standards No. 13 Accounting for Leases as one which transfers benefits and risks of ownership to the lessee. Leases meeting the criteria of a capital lease as defined are recorded at inception as expenditures and other financing sources in governmental fund types and as assets and liabilities in the General Fixed Assets and General Long-Term Debt Account Groups, respectively, at the present value of the future minimum lease payments, using the interest rates stated in the leases.

**N. Bond Discounts/Premiums/Issuance Costs** - In governmental funds, bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond proceeds are reported as an other financing source net of any premium or discount. Issuance costs are reported as debt service expenditures whether or not they are withheld from the net bond proceeds. In proprietary fund types, bond premiums and discounts are deferred and amortized over the life of the bonds, which approximates the effective interest method. Bonds payable are recorded net of any applicable premium or discount while issuance costs are reported as deferred charges.

**O. Compensated Absences** - Full-time state employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Teachers employed by the state do not receive vacation leave. Vacation leave may be accumulated and carried over from one year to the next. The carryover is limited to two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Each contribution year, an employee may contribute a maximum of 40 hours of sick leave to a nonrefundable sick leave pool. For fiscal year 2001, 1,394.5 hours were contributed to the sick leave pool and 2,104.5 hours were withdrawn leaving a balance of 3,064 hours in the pool. No liability is reported in the accompanying financial statements because these hours are nonrefundable to participants except by grants approved through an application process.

Vested or accumulated leave of Proprietary and Pension Trust Funds is recorded as an expense and liability of those funds; for higher education the expense and liability is recorded as the benefits accrue to employees. The liability amount recorded in the General Long-Term Obligations Account Group is not expected to be liquidated with expendable financial resources, thus no expenditure or liability is reported in the governmental funds. Upon retirement or termination, an employee is paid for 100 percent of unused vacation leave and 25 percent of unused sick leave.

As of June 30, 2001, the State's liability for unused vacation and sick leave for Higher Education Funds was \$35,119,433. The leave liabilities for the remaining agencies at June 30, 2001, were \$65,733,023, an increase of

\$4,247,023 over the June 30, 2000, leave liability of \$61,486,000. The following table reflects the change (in thousands):

	Balance July 1, 2000	Leave Earned	Leave Used	Balance June 30, 2001
<b>Primary Government</b>				
Governmental Fund Types and Similar Trust Funds	\$54,880	\$34,647	\$30,564	\$58,964
Proprietary Fund Types and Similar Trust Funds	5,283	2,342	2,468	5,157
<b>Total</b>	<b>\$60,163</b>	<b>\$36,989</b>	<b>\$33,032</b>	<b>\$64,121</b>
<b>Component Units</b>				
Proprietary Fund Types and Similar Trust Funds	1,323	1,047	757	1,613
<b>Total Non-Higher Education Funds</b>	<b>\$61,486</b>	<b>\$38,036</b>	<b>\$33,789</b>	<b>\$65,734</b>

**P. Encumbrances** - The State utilizes encumbrance accounting to record purchase orders, contracts and other commitments for the expenditure of monies to assure effective budgetary control and accountability. Encumbrances outstanding at year-end represent the estimated amount of expenditures likely to result if orders for goods and services are completed. In governmental funds, encumbrances outstanding at year-end are reported as reservations of fund balances since they do not represent expenditures or liabilities.

**Q. Advances to Other Funds** - Noncurrent portions of long-term interfund receivables are reported as advances and are offset equally by a fund balance reserve account, which indicates that they do not constitute expendable available financial resources. The transaction is recognized by the receiving fund in the balance sheet account Advances From Other Funds.

**R. Fund Equity** - Contributed capital is recorded in proprietary funds that have received capital from other funds. Reservations represent those portions of fund equity or retained earnings not appropriated for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for the future use of financial resources. In FY2001 the General Fund designated fund balance represents the 1999 Legislature's desire to set aside \$30 million in tobacco settlement funds for revenue stabilization. Undesignated fund balances indicate that portion of fund equity that is available for budgeting in future years subject to working capital requirements.

**S. Property Taxes** - Real property taxes are levied in October and are payable in two installments on November 30 and May 31. These taxes attach as an enforceable lien immediately if not paid when due. The State recognizes property tax revenues as available if they are collectible within 60 days after fiscal year-end. Material delinquent and total uncollected current year property taxes receivable are recorded as receivables (net of uncollectibles).

Personal property tax levies are set each August and notices are normally mailed the following March or April. Half of mobile home taxes are due in 30 days and the remaining half on September 30. Taxes on all other types of personal property are to be paid in full 30 days after receipt of the notice. Personal property taxes attach as an enforceable lien immediately if not paid when due. Property taxes are collected by each of Montana's 56 counties. The counties then remit the State's portion to the State Treasury. The majority of these taxes help fund public school systems and higher education.

**T. Other Taxes** - On the Combined Statement of Revenues, Expenditures and Changes in Fund Balances for All Governmental Fund Types and Expendable Trust Funds, the revenue category "Other Taxes" consists of the following taxes (in thousands):

	General Fund	Special Revenue Fund	Capital Projects Fund	Total
Video Gaming	\$ 20,535	\$19,572	\$ -	\$ 40,107
Insurance Premium	41,064	36	-	41,100
Inheritance	17,643	-	-	17,643
University System Millage	1,197	13,080	-	14,277
Cigarette/Tobacco	10,498	1,692	1,831	14,021
Accommodations	52	11,053	-	11,105
Telephone License	20,339	-	-	20,339
Alcoholic Beverage	1,423	3,960	-	5,383
Electrical Energy	8,372	-	-	8,372
Public Contractor	700	-	-	700
Livestock	-	3,220	-	3,220
Public Service Commission	-	2,803	-	2,803
Freight Line	1,556	-	-	1,556

	General Fund	Special Revenue Fund	Capital Projects Fund	Total
Fire Protection	-	1,980	-	1,980
Wheat Sales	-	1,313	-	1,313
Vehicle	-	1,446	-	1,446
Consumer Counsel	-	1,018	-	1,018
Miscellaneous	136	1,544	-	1,680
<b>Total Other Taxes</b>	<b>\$123,515</b>	<b>\$62,717</b>	<b>\$1,831</b>	<b>\$188,063</b>

## 2. BUDGETARY REPORTING

**A. State Budget Process** - The Montana Legislature meets in the odd-numbered years to prepare annual budgets for the next biennium. The constitution requires that legislative appropriations not exceed available revenues. The legislature utilizes revenue estimates in the budgetary process to establish appropriation levels. Expenditures may not legally exceed budgeted appropriations at the fund level. In addition, the State Constitution prohibits borrowing to cover deficits incurred because appropriations exceeded anticipated revenues. State law requires an appropriation for disbursements from the General, Special Revenue and Capital Projects Funds, except for those Special Revenue Funds from nonstate and nonfederal sources restricted by law or by the terms of an agreement. The level of budgetary control is established by fund type, except Capital Project Funds, which are at project level. Budgets may be established in other funds for administrative purposes.

Agency budget requests are submitted to the Governor and the Legislative Fiscal Division. The Governor and budget director establish priorities and balance the budget. The Governor's budget is submitted to the Legislative Fiscal Division which prepares recommendations. A comparison of those recommendations with the Governor's budget is submitted to the legislature. Joint appropriations subcommittee hearings are held and an omnibus appropriation bill is reported in the House and subsequently sent to the Senate. The legislature generally enacts one bill to establish the majority of appropriations for the next two fiscal years. The Office of Budget and Program Planning establishes appropriations for each program by accounting entity (fund) within an agency. The legislature enacts other appropriations, but only within the available revenue. Agencies must prepare and submit to the budget director operational plans showing the allocation of operating budgets by expenditure category (i.e., personal services, operating expenses, equipment, etc.). The budget director or other statutorily designated approving authority may authorize changes among expenditure categories and transfers between program appropriations.

Appropriations may not be increased by amendment in the General Fund. However, a department, institution or agency of the executive branch desiring authorization to make expenditures from the General Fund during the first fiscal year of the biennium from appropriations for the second fiscal year of the biennium may apply for authorization from the Governor through the budget director. In the second year of the biennium, during the legislative session, the legislature may authorize supplemental appropriations. The Governor, or his designee, may approve budget amendments for non-general fund monies not available for consideration by the legislature and for emergencies. In the accompanying financial statements, reported budget amounts are as amended. There have been budget amendments authorized for fiscal year 2001 that were material to specific budgets, however, they did not materially affect the State's budget as a whole. There were no expenditures in excess of total authorized appropriations in the State's budgeted funds for the fiscal year.

Appropriations may be continued into the next fiscal year when authorized by the legislature or the Governor's office. After fiscal year-end, appropriations that are not continued are reverted. The reverted appropriations remain available for one fiscal year for expenditures that exceed the amount accrued/encumbered. Fund balances/retained earnings are not reserved for reverted appropriations. For fiscal year 2001, reverted appropriations for all funds were \$519.5 million of which \$41.5 million were for the General Fund and \$438.3 million were for the Special Revenue Fund. Agencies are allowed to carry forward 30% of their reverted operating appropriations into the next two fiscal years. This amount can be used for new expenditures at the request of the agency and upon approval of the budget office.

Appropriations for Capital Projects Funds are not made on an annual basis, but are adopted on a project-length basis. Because these non-operating budgets primarily serve a management control purpose and related appropriations are continuing in nature, no comparison between budgeted and actual amounts for funds budgeted on this basis is provided.

**B. Budget Basis** - The legislature's legal authorization ("appropriations") to incur obligations is enacted on a basis inconsistent with GAAP. The budget basis differs from GAAP for encumbrances outstanding at fiscal year-end; compensated absences, fixed assets and inventories purchased in Proprietary Funds; compensated absences and inventories purchased in Higher Education Funds; certain loans from governmental funds; and other miscellaneous nonbudgeted activity (e.g., bad-debt write-offs, etc.). The General and Special Revenue Fund Type budgetary statement includes a reconciliation of unreserved fund balance between "Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses" on the budgetary basis and the GAAP basis.



### 3. OTHER ACCOUNTING ISSUES

**A. Accounting and Reporting Changes** - The State made changes in its accounting and reporting practices to enhance conformance with GAAP. All changes reported in the accompanying financial statements that resulted in the restatement of beginning fund equity were made to correct errors of prior periods.

**B. State Compensation Insurance Fund** - The workers compensation benefit/claims expenditure amount (in thousands) of \$74,476 reported in the component unit's column in the combined proprietary fund operating statement consists of the amount of benefits paid and the actuarially determined change in estimated claims liability for the State Compensation Insurance (New Fund) and State Compensation Insurance (Old Fund). The amounts for each fund are broken down as follows:

	<u>State Compensation Insurance</u>	
	<u>New Fund</u>	<u>Old Fund</u>
Benefit and Loss Adjustment Expense	\$62,798	\$ 13,936
Incr (Decr) in Actuarially Estimated Claims	10,987	(13,245)
Total Benefits/Claims	<u>\$73,785</u>	<u>\$ 691</u>

### 4. CASH/CASH EQUIVALENTS AND INVESTMENTS

This footnote details the following balance sheet classifications (in thousands):

Cash/Cash Equivalents	\$1,953,453
Equity in Pooled Investments	\$5,770,014
Investments	\$1,962,694

Carrying amounts and fair values (Bank Balance for Cash Deposits) for the State's cash/cash equivalents and investments are presented in Tables 1 through 4.

#### **A. General**

(1) Cash and cash equivalents consist of funds deposited by individual funds in the State Treasurer pooled cash account, cash deposits in checking accounts, cash invested in the Short Term Investment Pool, undeposited cash held by individual state agencies, and investments categorized as cash equivalents.

Cash deposited with the State Treasurer pooled cash account is invested by the Montana Board of Investments (BOI) in short term securities and other investments. Because these funds are immediately available to the individual funds, their investment in the pooled cash account is reported as a cash equivalent. In addition to the State Treasurer pooled cash account there is a short term investment pool (STIP) maintained by the BOI. This investment fund provides individual state agencies and local governments an opportunity to invest excess cash in a money market fund. Because these pooled funds are invested in short term, highly liquid investments, the individual funds investments in the STIP are reported as a cash equivalent.

Although STIP, an external investment pool, is not registered with the Securities and Exchange Commission (SEC) as an investment company, the BOI has as policy that STIP will, and does, operate in a manner consistent with the SEC Rule 2a7 of the Investment Company Act of 1940. In meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use amortized cost rather than fair value to report net assets to compute unit values. Investments held are reported at fair value, annually, and the difference between amortized cost and fair value is reflected as an unrealized gain or loss in the investments managed. The portfolio is carried at amortized cost or book value. State agencies that are allowed to retain their investment earnings within their funds are only allowed to invest in STIP. Local government participation in STIP is also voluntary. Separately issued external investment pool financial statements may be obtained by contacting the Montana Board of Investments, 2401 Colonial Drive, 3<sup>rd</sup> Floor, PO Box 200126, Helena, MT 59620-0126.

Deposits with financial institutions are categorized to indicate the level of risk assumed by the State. **Category 1** consists of deposits that are insured or collateralized with securities held by the State or by its agent in the State's name. **Category 2** consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the State's name. **Category 3** deposits are uncollateralized. The State's Cash Deposits are categorized in Table 1.

The State's cash equivalents and investments are categorized to indicate the risk level assumed by the State in Table 2 - Cash Equivalents, Table 3 - Equity in Pooled Investments and Table 4 - Investments to disclose the level of risk assumed by the State at fiscal year-end.

**Category 1** includes investments that are insured or registered securities held by the State or its agent in the State's name. **Category 2** includes uninsured and unregistered investments in which the securities are held by the counter party's trust department or agent in the State's name. **Category 3** includes uninsured and unregistered investments in which the securities are held by the counter party, or by its trust department or agent, but not in the State's name. None of the State's cash equivalents or investments are classified in Category 3 at fiscal year-end. **Not Categorized** includes investments held by broker-dealers under securities loans with cash collateral.

(2) The State invests in certain types of securities including asset-backed securities, variable-rate instruments, zero coupon bonds, preferred stocks (convertible equity securities), and mortgage-backed securities in addition to other long term investment securities to provide a diversified investment portfolio and an overall competitive rate of return. All securities are reported by investment portfolio and type in Table 2 - Cash Equivalents, Table 3 - Equity in Pooled Investments, and Table 4 - Investments.

Asset-backed securities represent debt securities collateralized by a pool of non-mortgage assets such as trade and loan receivables, equipment leases, credit cards, etc. These securities have less credit risk than do securities not backed by pledged assets, while market risk for asset-backed securities is the same as market risk for similar non asset-backed securities.

Variable-rate instruments pay a variable rate of interest until maturity. The variable rate floats with the 91 day treasury bill or the London Interbank Offered Rate (LIBOR). Variable-rate instruments have credit risk identical to similar fixed-rate securities; however, their market risk (income) is more sensitive to interest rate changes. Their market risk (value/price) may be less volatile than fixed-rate securities because their value will usually remain near par as a result of interest rates being periodically reset to maintain a current market yield.

Zero Coupon Bonds and Preferred Stocks include securities whose structure differs from the basic convertible security structure. These include PENs (Participating Equity Notes), PERCs (Preferred Equity Redemption Coupons), DECS (Dividend Enhanced Common Stock) and ACES (Automatically Convertible Equity Securities). PENs are corporate bonds offering the investor a choice at maturity of receiving the greater of the bond's par value or the value of a preset ratio of an established index. PERCs reflect an investor's acceptance of a cap in a security's price appreciation in exchange for a higher income yield. DECS and ACES are issued, and traded, at a premium to the underlying common stock in exchange for a higher dividend yield. The State's investment policy requires convertible debt and zero coupon bonds to be rated at a specific level at time of purchase as a credit risk control measure. These securities carry market risk and the potential for change in market value. Market value changes may occur due to interest rate changes, declines in the value of underlying common stock, or the triggering of a call feature and other factors.

Mortgage-backed securities reflect participation in a pool of residential mortgages. These securities include structured financial instruments known as REMICs (Real Estate Mortgage Investment Conduits). Some REMICs are principal-only strips (POS) and interest-only strips (IOS). These securities are based on the cash flows from the principal and interest payments on underlying mortgages, respectively. These securities have credit risk as measured by major credit rating services. The State's investment policy requires these investments to be rated investment grade at the time of purchase. Market risk for these securities is caused by changes in the price or principal value of the securities due to changes in interest rates.

There are no legal risks, as of June 30, 2001, that the State is aware of regarding any investments.

(3) Under the provisions of State statutes, the State has, via a Securities Lending Authorization Agreement, authorized the State's agent to lend the State's securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, the State receives a fee and the agent must initially receive collateral equal to 102% - 105% of the fair value of the securities on loan and maintain collateral equal to not less than 100% of the fair value of the loaned security. During fiscal year 2001, the State's agent loaned, on behalf of the State, certain securities held by the agent, and received US dollar currency cash, US government securities, and irrevocable bank letters of credit. The State's agent does not have the ability to pledge or sell collateral securities unless the borrower defaults. The State retains all rights and risks of ownership for the loaned securities. On June 30, 2001, the State had no credit risk exposure to borrowers.

## **B. Cash/Cash Equivalents**

(1) **Cash Deposits** - The State requires collateralization based on the average daily bank balance in the depository bank holding the main State bank account. For other depository banks, State statutes require collateralization at 50% of the bank balance. The Cash Deposit amounts include both Primary Government and Component Unit deposits.

Table 1 - Cash Deposits (in Thousands)

Risk Category	Carrying Amount	Bank Balance	Fund
1 Insured (FDIC)	\$ 1,752	\$ 1,752	Various
Collateral held by State/State's agent	29,612	29,612	Various
2	4,789	4,789	Various
3	11,131	11,131	Various
<b>Uncategorized:</b>			
Undeposited Cash	2,907		
Cash in U.S. Treasury	176,133		
Less: Outstanding Warrants	(62,665)		
<b>Total Cash Deposits</b>	<b>\$163,659</b>		

As of June 30, 2001, the carrying amount of deposits for component units was \$50,975,948 and the bank balance was \$49,615,035. Of the bank balance, \$49,615,035 was fully insured or collateralized with securities held by the component units or their agents in the unit's name and \$61,871 was collateralized with securities held by the pledging institution's trust department or its agent in the respective component unit's name.

(2) **Cash Equivalents** - consists of cash in the State Treasury invested by individual funds in the Short Term Investment Pool (STIP) and the Treasurer Cash Pool in identifiable securities and investments considered to be cash equivalents. Cash equivalents, except for the Housing Authority in the Component Unit Proprietary Fund, generally are short-term, highly liquid investments with original maturities of three months or less. The Housing Authority considers cash and cash equivalents to be cash held by the State Treasurer, other cash deposits, and mortgage payments in transit. Cash equivalents may be under the control of the Board of Investments (the Board) or other agencies, as allowed by law.

Table 2 - Cash Equivalents (in Thousands)

	Risk Category 1		Not* Categorized	Carrying Amount	Fair Value	Fund
	Securities Not on Loan	On Loan for* Securities Collateral				
Asset-Backed Securities	\$662,180	\$-	\$-	\$ 662,180	\$ 662,064	Various
Corporate Obligations	598,472	-	-	598,472	600,526	Various
Government Securities	129,698	-	-	129,698	132,481	Various
Repurchase Agreements	61,500	-	-	61,500	61,500	Various
Variable-Rate	299,009	-	-	299,009	299,127	Various
<b>Direct Investments:</b>						
Money Markets				38,935	38,935	Various
Guaranteed Investment Contracts				-	-	Various
<b>Total Cash Equivalents</b>				<b>\$1,789,794</b>	<b>\$1,794,633</b>	
<b>Securities Lending Collateral</b>						
Investment Pool				\$-	\$ -	-

\* At June 30, 2001, no securities were loaned for securities or cash collateral under a security lending agreement with the State's agent.

As of June 30, 2001, local governments invested \$768,239,670 in the STIP.

As of June 30, 2001, component units of the State of Montana had investments in cash equivalents with a book value and fair value of \$338,297,098.

**C. Equity in Pooled Investments** - Consists of investments held by pooled investment funds. The Montana Stock Pool (MTCP), Trust Funds Bond Pool (TFBP), Retirement Funds Bond Pool (RFBP), Montana International Pool (MITP), and Montana Real Estate Pool (MTRP) were created to allow qualifying funds to participate in diversified investment pools. Participation is restricted to expendable trust, nonexpendable trust, pension trust, higher education endowment and trust funds, the Deferred Compensation Plan and specific trusts established within the State Special Revenue Fund. Purchases are subject to statutory restrictions for quality and size of holdings.



Table 3 - Equity In Pooled Investments (in Thousands)

	Risk Category 1				
	Securities Not on Loan	On Loan for Securities Collateral*	Not Categorized*	Carrying Amount	Fair Value
<b>MTCP:</b>					
Corporate Stocks	\$1,729,626	\$ -	\$ -	\$1,729,626	\$2,307,242
SPIFF	26,773	-	-	26,773	26,357
<b>TFBP:</b>					
Corporate Asset Backed	7,880	-	-	7,880	8,152
Corporate Stocks	691,060	-	7,914	698,974	697,310
US Govt. Mortgage Backed	48,523	-	-	48,523	48,336
US Govt. Direct	155,742	-	99,456	255,198	272,981
Yankee Bonds	88,399	-	-	88,399	85,270
State and Local Government	21,904	-	-	21,904	21,907
<b>RFBP:</b>					
Corporate Asset Backed	4,514	-	-	4,514	4,653
Corporate Stocks	1,139,909	-	17,095	1,157,004	1,150,231
US Govt. Mortgage Backed	77,460	-	-	77,460	78,357
US Govt. Direct	295,554	-	141,812	437,366	470,455
Yankee Bonds	115,114	-	2,400	117,514	113,283
State and Local Government	2,320	-	-	2,320	2,320
<b>MTIP:</b>					
BOI Internal International	120,718	500	26,007	147,225	149,423
Pyford International	72,425	-	7,308	79,733	73,435
Schroder Capital Management	82,512	104	10,241	92,857	88,890
SG Pacific Asset Management	75,230	395	8,338	83,963	77,683
<b>Total Pooled Investments</b>	<b>4,755,663</b>	<b>999</b>	<b>320,571</b>	<b>5,077,233</b>	<b>5,676,285</b>
Other Pool Assets (Net)	-	-	-	93,730	93,730
<b>Total - Equity In Pooled Investments</b>	<b>\$4,755,663</b>	<b>\$999</b>	<b>\$320,570</b>	<b>\$5,170,962</b>	<b>\$5,770,014</b>
Securities Lending Collateral Investment Pool			<b>\$351,185</b>	<b>\$ 351,185</b>	<b>\$ 351,185</b>

\* At June 30, 2001, these underlying securities, with fair values of \$886,804 and \$336,274,991, respectively, were loaned for securities and cash under a security lending agreement with the State's agent.

As of June 30, 2001, component units of the State of Montana had equity in pooled investments with a book value of \$3,107,290,593 and a fair value of \$4,664,997,502.

**D. Investments** - Long-term investments are primarily administered by three state agencies. Article 8 of Montana's Constitution, with supporting statutes, authorizes the Board of Investments (BOI) to manage the State's unified investment program. State law specifies which agencies may hold investments outside the administration of the BOI. The BOI, as the State's primary administrator of long-term investments, actively manages 82% of those investments; the Board of Housing, 11%; and the Department of Administration's Public Employees Retirement Board, 6% for the State's Deferred Compensation Plan. Additionally, the Department of Natural Resources and Conservation manages 1% of total investments for bond related activities.

The BOI must employ the "Prudent Expert Rule" in managing the State's investment portfolio. Investments are presented in the Balance Sheet at fair value. Investment fair values for publicly traded securities are determined primarily by reference to market prices supplied to the BOI's custodial bank or trustee. Amortized cost, or carrying value, represents the original cost adjusted for premium and discount amortization where applicable.

The Board of Investments continued to invest in leveraged buyouts in fiscal year 2001. The Board's total leveraged buyout commitment, administered by Kohlberg, Kravis, Roberts and Companies (KKR), amounts to \$125 million for

the 1996 and European funds as of June 30, 2001. The leveraged buyout invested balance for the pension funds amounted to \$98,439,794 on June 30, 2001.

On January 19, 2001, the Board approved a staff recommendation to commit \$25 million in the leveraged buyout fund of Madison Dearborn Partners IV. As of June 30, 2001, the pension funds invested balance totaled \$365,628.

On September 22, 2000, the Board approved a staff recommendation to commit \$25 million in the leveraged buyout fund of Welsh Carson Anderson & Stowe IV. As of June 30, 2001, the pension funds invested balance totaled \$4,750,000.

As of June 30, 2001, the Board has a \$165.5 million commitment for venture capital investments administered by Adams Street Partners, formerly Brinson Partners. The June 30, 2001 venture capital invested balance totaled \$31,049,359 for the Public Employees Retirement and \$25,404,017 for the Teachers' Retirement Systems.

On August 17, 2001, the Board approved a \$40 million commitment to invest in the Brinson Partnership Fund – US 2002 Subscription. The Board also approved a \$40 million commitment to invest in the Adams Street V direct investment fund.

On May 18, 2001, the Board moved that \$50 million be invested with Lexington Partners L.P. Fund V, a secondary venture capital market fund. As of June 30, 2001, this investment had not been funded.

The Board committed to invest, on behalf of the retirement funds, in the S&P 500 Equity Index Fund A managed by Barclays Global Investors. As of June 30, 2001, the pension funds had an invested balance of \$255 million.

Upon receiving electorate approval, the Board began investing for the State Fund in January 2001 in the S&P 500 Equity Index Fund B managed by Barclays Global Investors. As of June 30, 2001, State Fund's invested balance totaled \$24,000,000.

**Table 4 – Investments (Risk Categories) (in Thousands)**

	<b>Risk Category 1 Securities Not on Loan</b>	<b>Risk Category 2</b>	<b>Not Categorized*</b>	<b>Carrying Amount</b>	<b>Fair Value</b>
<b>Primary Government</b>					
Corporate Bonds	\$ 67,338	\$ -	\$ 13,052	\$ 80,390	\$ 81,481
Corporate Asset-Backed	45,367	-	-	45,367	46,125
Government Securities	112,669	-	-	112,669	113,749
Government Mortgage-Backed	21,719	-	-	21,719	21,428
Other	6,008	-	1,000	7,008	6,670
<b>Total</b>	<b>\$253,101</b>	<b>\$ -</b>	<b>\$ 14,052</b>	<b>\$ 267,152</b>	<b>\$ 269,453</b>
<b>Component Units</b>					
Corporate Bonds	\$204,339	\$ -	\$ -	\$ 204,339	\$ 207,606
Corporate Asset-Backed	20,223	-	-	20,223	20,548
Government Securities	55,234	58,315	92,273	205,821	211,861
Government Mortgage-Backed	46,787	-	-	46,787	46,478
Other	8,468	154,521	-	162,989	162,630
<b>Total</b>	<b>335,051</b>	<b>212,836</b>	<b>92,273</b>	<b>640,159</b>	<b>649,123</b>
<b>Total</b>	<b>\$588,152</b>	<b>\$212,836</b>	<b>\$106,325</b>	<b>\$ 907,311</b>	<b>\$ 918,576</b>

**Direct Investments:**

**Primary Government**

**Commercial Loans**

**Total**

164,625	164,625
<b>\$ 164,625</b>	<b>\$ 164,625</b>

**Component Units**

**Real Estate**

**Mortgages**

**Deferred Compensation**

**Other**

**Total**

\$ 12,080	\$ 13,600
281,207	281,505
123,999	126,751
439,009	457,637
<b>856,295</b>	<b>879,565</b>

**Total Investments**

<b>\$1,928,232</b>	<b>\$1,962,694</b>
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Table 4 – Investments (Risk Categories) (in Thousands)

<u>Risk Category 1</u>				
<u>Securities</u>	<u>Risk</u>	<u>Not</u>	<u>Carrying</u>	<u>Fair</u>
<u>Not on Loan</u>	<u>Category 2</u>	<u>Categorized*</u>	<u>Amount</u>	<u>Value</u>

**Primary Government**

Securities Lending Collateral Investment Pool	\$116,327	\$ 116,327	\$ 116,327
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\* At June 30, 2001, the underlying securities, with fair values of \$111,818,481 were loaned for cash collateral under a security lending agreement with the State's agent.

**5. FIXED ASSETS**

Changes in fixed asset balances for the fiscal year ended June 30, 2001, are reflected in the following table (Intrafund transfers of fixed assets have not been eliminated) (in thousands):

**Primary Government**

	<u>Balance</u> <u>July 1, 2000</u>	<u>Additions/</u> <u>Transfers</u>	<u>Deletions/</u> <u>Transfers</u>	<u>Balance</u> <u>June 30, 2001</u>
<b><u>Proprietary Funds</u></b>				
Land	\$ 1,036	\$ -	\$ -	\$ 1,036
Buildings/Improvements	5,873	83	107	5,849
Equipment	143,033	19,235	2,843	159,425
Other Fixed Assets	1,147	7	-	1,154
Construction in Progress	5,257	-	2,014	3,243
Subtotal/Total	156,346	\$ 19,325	\$ 4,964	170,707
Accumulated Depreciation	(82,401)			(92,756)
Total	\$ 73,945			\$ 77,951

**Nonexpendable Trust Funds**

Land	\$ 51,260	\$ -	\$ -	\$ 51,260
Other Fixed Assets	1	-	-	1
Total	\$ 51,261	\$ -	\$ -	\$ 51,261

**General Fixed Assets Account Group**

Land	\$ 66,267	\$ 6,104	\$ 1,114	\$ 71,257
Buildings/Improvements	386,289	48,250	9,376	425,163
Equipment	64,478	8,113	7,771	64,820
Other Fixed Assets	65,159	424	82	65,501
Construction in Progress	67,516	3,885	42,830	28,571
Total	\$649,709	\$ 66,776	\$61,173	\$655,312

**Component Units****Proprietary Funds**

Equipment	\$ 2,744	\$ 532	\$ 425	\$ 2,851
Accumulated Depreciation	(1,508)			(1,494)
Total	\$ 1,236			\$ 1,357

**Pension Trust Fund**

Land	\$ 60	\$ -	\$ 25	\$ 35
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## Primary Government

	Balance July 1, 2000	Additions/ Transfers	Deletions/ Transfers	Balance June 30, 2001
Buildings/Improvements	435		277	158
Equipment	152	-	10	142
Subtotal/Total	647	\$ -	\$ 312	335
Accumulated Depreciation	(399)			(222)
Total	\$ 248			\$ 113
<b>Higher Education Funds</b>				
Land	\$ 13,728	\$ 68	\$ 96	\$ 13,700
Buildings/Improvements	526,955	68,870	878	594,947
Equipment	111,224	12,733	5,515	118,442
Other Fixed Assets	91,274	4,799	203	95,870
Construction in Progress	30,388	13,977	28,704	15,661
Intangible Assets	3,477	430	-	3,907
Total	\$777,046	\$100,877	\$34,350	\$842,236

## 6. RETIREMENT SYSTEMS

## DEFINED CONTRIBUTION PLAN

Effective January 1, 1988 through June 30, 1993, eligible employees of the Montana University System (MUS) could elect to participate in the Optional Retirement Program (ORP). The ORP is a defined contribution retirement plan governed by Title 19, chapter 21 of the Montana Code Annotated. The plan is underwritten by the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF) and only faculty and staff with contracts under the authority of the Board of Regents may participate. Those faculty and staff members who did not elect the ORP participate in the Teachers Retirement System, a defined benefit plan discussed in the next section. Beginning July 1, 1993, membership in the ORP is mandatory for eligible employees new to the MUS. The MUS is the only employer contributing to this plan.

The benefits at retirement depend upon the amount of contributions, amount of investment gains and losses and the employee's life expectancy at retirement. Under the ORP, each employee enters into an individual contract with TIAA-CREF. Individuals are immediately vested with all contributions. Higher education units record employee/employer contribution expenditures in the affected higher education subfund when remitting contributions to the Commissioner of Higher Education. These monies are recorded in the Custodial Accounts Agency Fund. The Commissioner's Office then wire transfers the contributions to TIAA-CREF. The MUS is not liable for asset management or for providing benefits after the required contributions have been made to TIAA-CREF. As of June 30, 2001, 1,859 employees are members of the ORP. Required employee contributions are 7.044% of salary and required employer contributions are 4.956% of salary for a total of 12% of salary contributed to the ORP.

	TIAA-CREF (in Thousands)
Covered Payroll	\$ 90,171
Total Payroll	250,057
Employer Contributions	\$ 4,467
Percent of Covered Payroll	4.954%
Employee Contributions	\$ 6,352
Percent of Covered Payroll	7.044%

## DEFINED BENEFIT PLANS

## A. General

The Public Employees Retirement Board, a discretely presented component unit of the State of Montana, administers eight defined benefit plans - Public Employees Retirement System (PERS), Highway Patrol Officers Retirement System (HPORS), Judges Retirement System (JRS), Game Wardens and Peace Officers Retirement System (GWPORS), Sheriffs Retirement System (SRS), Municipal Police Officers Retirement System (MPORS), Firefighters Unified Retirement System (FURS), and Volunteer Firefighters Compensation Act (VFCA). The board prepares a

publicly issued financial report that includes financial statements and required supplementary information for PERS, HPORS, JRS, GWPORS, SRS, MPORS, FURS, and VFCA.

The financial statements for PERS include activity for a defined benefit and a defined contribution retirement plan and an education fund. The defined contribution plan will be available to all active PERS members starting July 1, 2002. Per Article VIII, Section 15, of the Montana Constitution, "Public retirement system assets, including income and actuarially required contributions, shall not be encumbered, diverted, reduced, or terminated and shall be held in trust to provide benefits to participants and their beneficiaries and to defray administrative expenses." The assets and liabilities of one retirement plan cannot be co-mingled with those of another plan. The PERS received a long-term loan for \$670,000 from the Montana Department of Administration to fund the defined contribution plan start-up and implementation costs. The education fund was established to inform the PERS members about the plan choices. Activity reported for the defined contribution plan and the education fund for June 30, 2001, follows (in thousands):

**Statement of Plan Net Assets  
June 30, 2001**

	<b>Defined Contribution</b>	<b>Education Fund</b>
<b>Assets:</b>		
Cash/Cash Equivalents	\$ 146	\$1,397
Receivables (Net)	1	67
<b>Total Assets</b>	<b>\$ 147</b>	<b>\$1,464</b>
<b>Liabilities:</b>		
Accounts Payable	\$ 722	\$ 52
Compensated Absences Payable	10	5
<b>Total Liabilities</b>	<b>\$ 732</b>	<b>\$ 57</b>
<b>Fund Balances Reserved for Employee Pension Benefits</b>	<b>\$(585)</b>	<b>\$1,407</b>

**Statement of Changes in Plan Net Assets  
For the Fiscal Year Ended June 30, 2001**

	<b>Defined Contribution</b>	<b>Education Fund</b>
<b>Additions:</b>		
Employer Contributions	\$ -	\$ 768
Receivables (Net)	4	52
<b>Total Additions</b>	<b>4</b>	<b>820</b>
<b>Deductions:</b>		
Administrative Expense	271	132
<b>Total Deductions</b>	<b>271</b>	<b>132</b>
<b>Net Increase (Decrease)</b>	<b>(267)</b>	<b>688</b>
<b>Fund Balances Reserved for Employee Pension Benefits – July 1 As Previously Reported</b>	<b>(334)</b>	<b>719</b>
<b>Prior Period Adjustments</b>	<b>16</b>	<b>-</b>
<b>Fund Balances Reserved for Employee Pension Benefits – July 1 As Restated</b>	<b>(318)</b>	<b>719</b>
<b>Fund Balances Reserved for Employee Pension Benefits – June 30</b>	<b>\$(585)</b>	<b>\$1,407</b>

**FY00 Financial Section**

**Auditor's Report & Findings**

**Corrective Action Plan**

**Summary Schedule of Prior  
Audit Findings**

The Teachers Retirement System (TRS) is a discretely presented component unit of the State of Montana. The system prepares a publicly issued financial report that includes financial statements and required supplementary information for TRS.

A summary of government employers participating in PERS, SRS, MPORS, HPORS, FURS, GWPORS, JRS and TRS by employer type at June 30, 2001, follows:

	Retirement System							
	PERS	SRS	MPORS	HPORS	FURS	GWPORS	JRS	TRS
<b>Employers</b>								
State Agencies	34	1		1		5	1	8
Counties	55	55						
Cities/Towns	90		21		14			
Colleges/Universities	5					3		8
School Districts	240							384
Other	86							
<b>Total</b>	<b>510</b>	<b>56</b>	<b>21</b>	<b>1</b>	<b>14</b>	<b>8</b>	<b>1</b>	<b>400</b>

#### **B. Plan Descriptions**

The State contributes to and/or administers nine plans in four categories: (1) the State as the single employer; (2) the State as an employer contributor to cost-sharing multiple-employer plans; (3) the State as a nonemployer contributor to cost-sharing multiple employer plans; and (4) the State as a nonemployer contributor.

The number of years required to obtain vested rights varies among the systems. All systems provide early retirement options, death benefits, termination and disability benefits. The post-retirement benefits of each of the systems are included in the plan descriptions below. In addition, the 1997 Legislature passed a guaranteed annual benefit adjustment (GABA) to the PERS, MPORS, GWPORS, SRS, JRS, HPORS, and FURS that will provide a benefit increase of 1.5% each January, beginning January 1998, if the recipient has been receiving a retirement benefit for at least 36 months. In addition, MPORS, JRS, HPORS & FURS members hired prior to July 1, 1997, and retirees of these systems, were required to make an election by December 31, 1997, for GABA coverage.

The funding policies for each system provide for periodic employer and employee contributions (except VFCA) at rates specified by state law; contribution requirements are not actuarially determined. An actuary determines the actuarial implications of the funding requirement in a biennial actuarial valuation. The actuarial method used to determine the implications of the statutory funding level is the entry age normal cost method, with both normal cost and amortization of the unfunded accrued liability determined as a level percentage of payroll. To maintain a fund on an actuarially sound basis, the rate of contributions should fund the normal cost in addition to amortizing the unfunded liability over a period not to exceed 30 years.

#### **(1) State as the Single Employer**

**HPORS - Highway Patrol Officers Retirement System** - This system, established in 1971 and governed by Title 19, chapters 2 & 6 of the Montana Code Annotated (MCA), provides retirement benefits for all members of the Montana Highway Patrol, including supervisory personnel. Rights are vested after five years of service. Member contributions are 9% of total salaries of active highway patrol officers hired prior to July 1, 1997 and not electing GABA coverage; and 9.05% for members hired after June 30, 1997 and members electing GABA coverage. The employer contribution rate is 36.33% of active officer's salaries. For members, there is no minimum age, but minimum service is 20 years for benefit eligibility. The service retirement benefit is based on a formula of 2.5% times the number of years of service times the highest average compensation. Post-retirement benefits, for non-GABA members, are in the form of minimum benefit supplements which ensure the retiree's benefit is no less than 2% of a probationary highway patrol officer's salary for each year of the retiree's service, with the annual increase not to exceed 5% of the benefit nor 60% of the current base salary of a probationary officer. Members retired prior to July 1, 1991, who are at least age 55 and have been retired a minimum of five years, may be eligible for an annual lump sum payment distributed in September. This lump sum payment is funded by a registration fee of 25 cents per vehicle registration. The average payment in fiscal year 2001 was \$2,162. This enhancement is limited to non-GABA members.

**JRS - Judges Retirement System** - This system, established in 1967 and governed by Title 19, chapters 2 & 5 of the MCA, provides retirement benefits for all district court judges, justices of the Supreme Court, and the Chief Water Judge. Members contribute 7% of their salaries and the State contributes 25.81% of active judges' salaries. Rights are vested after five years of membership service. For benefit eligibility, minimum service is five years and the minimum age is 65. The monthly retirement benefit formula is  $3 \frac{1}{3}\%$  per year of the member's highest average compensation for the first 15 years of credited service, plus 1.785% per year for each year of credited service after 15



years. For non-GABA members, the percentages are based on the member's current salary, instead of the highest average compensation.

### **(2) State as an Employer Contributor to Cost-Sharing Multiple-Employer Systems**

**PERS - Public Employees Retirement System** - This mandatory system, established in 1945 and governed by Title 19, chapters 2 & 3 of the MCA, provides retirement benefits to substantially all public employees not covered by another public system. Member contributions were 6.9% of covered compensation for fiscal year 2001. Each state agency and university system employer contributed 6.9% of PERS covered payroll during fiscal year 2001. Participating local governments and school district employers contributed 6.8% of PERS covered payroll. The State contributed 0.1% for local governments and school district employers from the State General Fund. Benefit eligibility is age 60 with at least 5 years of service; age 65 regardless of service, or 30 years of service regardless of age. Actuarially reduced benefits may be taken with 25 years of service or at age 50 with at least five years of service. Monthly retirement benefits are determined by taking the greater of: (1) 2% times the number of years of service times the highest average compensation times any early retirement reduction if necessary or (2) a monthly annuity that is the actuarial equivalent of twice the member's accumulated regular contributions plus interest earned. Members' rights are vested after five years of membership service.

**TRS - Teachers Retirement System** - This mandatory system, established in 1937 and governed by Title 19, chapter 20 of the MCA, provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, or unit of the university system. Member and employer contributions are 7.15% and 7.47%, respectively, of earned compensation. Eligibility is met with a minimum of 25 years of service or age 60 with 5 years of creditable service. The formula for annual benefits is 1.6667% times creditable service years times the average final compensation. Rights are vested after five years of creditable service. Vested employees may retire at or after age 50 and receive reduced retirement benefits. Effective January 1, 1988, university system employees eligible to participate in the Teachers Retirement System could elect to participate in an Optional Retirement Plan established by the Board of Regents. A supplemental employer contribution to TRS is required to be amortized by July 1, 2033, the amount that would not be paid for by contributions of university system members. The fiscal year 2001 contribution percentage of the total compensation of employees participating in the ORP program is 3.73% and the contribution was \$3.5 million. The unfunded actuarial accrued liability of \$404.5 million is included in the Schedules of Funding Progress.

**SRS - Sheriffs Retirement System** - This system, established in 1975 and governed by Title 19, chapters 2 & 7 of the MCA, covers all sheriffs and State Department of Justice investigators hired after July 1, 1993. The member contribution is 9.245% of salary; the employer contribution is 9.535% of salary. Minimum years of service for normal service retirement eligibility are 20. The service retirement benefit is calculated at 2.5% of the highest average compensation for each year of membership service. Reduced benefits for early retirement may be taken with a minimum of five years of service and a minimum age of 50. Rights are vested after five years of membership service.

**GWPORS - Game Wardens & Peace Officers Retirement System** - This system, established in 1963 and governed by Title 19, chapters 2 & 8 of the MCA, provides retirement benefits for all persons employed as a game warden, warden supervisory personnel and state peace officers not eligible to join the SRS, HPORS and MPORS systems. The member contributes 8.5% of salary and the State contributes 9.0% of covered active employee salaries. For benefit eligibility, minimum age is 50 and minimum years of service are 20. If subject to involuntary termination, a member may retire with five years of service at age 55. The yearly retirement benefit formula is 2% times the number of years of service times the highest average compensation. Rights are vested after five years of membership service. PERS members who are hired into a position covered by the GWPORS have 30 days to elect membership in the GWPORS or remain in PERS.

### **(3) State as a Nonemployer Contributor to Cost-Sharing Multiple-Employer Systems**

**MPORS - Municipal Police Officers Retirement System** - The system, established in 1975 and governed by Title 19, chapters 2 & 9 of the MCA, covers all municipal police officers of cities covered by the plan. It is a cost-sharing plan with a special funding situation. The member contribution is 5.8% of salary for members employed prior to July 1, 1975; 7% of salary for members employed after June 30, 1975, and prior to July 1, 1979; 8.5% of salary for members employed after June 30, 1979 and prior to July 1, 1997; and 9% for members hired on or after July 1, 1997 and members electing GABA. City contributions are 14.41% of active police officers' salaries. The State contributes 29.37% of active police officers' salaries. The State's contribution is funded from the General Fund. Rights are vested after five years of membership service. Minimum years of service are five for benefit eligibility at age 50, or 20 years of service at any age. The service retirement benefit is 2.5% times the number of years of service times the final average compensation. For non-GABA members, a minimum benefit adjustment is required to insure that the retired members benefit is not less than one-half of the compensation paid to newly confirmed police officers in the city that last employed the member.

**FURS - Firefighters Unified Retirement System** - This system, established in 1981 and governed by Title 19, chapters 2 & 13 of the MCA, provides retirement benefits for firefighters employed by first and second class cities and other cities that wish to adopt the plan. It is a cost-sharing plan with a special funding situation. The member contribution is 9.5% of compensation for members hired prior to July 1, 1997, and 10.7% for new hires after June 30, 1997, and for

members electing GABA coverage. City contributions are 14.36% of total annual compensation. The State contribution is 32.61% of total annual compensation for all firefighters and is paid out of the General Fund. Minimum eligibility is 20 years regardless of age. For members not electing GABA and hired prior to July 1, 1981, monthly retirement benefit is 50% of final average compensation plus 2% per year for each year in excess of 20 years, or 2.5% of final average compensation per year. Members hired before July 1, 1981, with less than 20 years, receive a retirement benefit of 2% per year of service. Members electing GABA and hired after July 1, 1981, receive 2.5% per year of service. Post-retirement benefits, for non-GABA members, require that each retiree receive at least 50% of the salary paid a newly confirmed active firefighter. Rights are vested after five years of membership service.

#### **(4) State as a Nonemployer Contributor**

**VFCA - Volunteer Firefighters Compensation Act** - This compensation program, established in 1965 and governed by Title 19, chapter 17 of the MCA, provides medical benefits and pension, disability and death benefits for all volunteer firefighters who are members of eligible volunteer fire companies in unincorporated areas of the state. VFCA is a plan with a special funding situation. The State contribution is 5% of fire insurance premium taxes collected. Rights are vested after ten years of qualified service. Eligibility requirements are 55 years of age and 20 years qualified service for a full benefit or 60 years of age and a minimum of 10 years qualified service for a partial benefit.

#### **C. Summary of Significant Accounting Policies**

The defined benefit plans' financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

#### **D. Method Used to Value Investments**

The Montana Board of Investments (BOI) manages the investments for the retirement systems. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on a discounted cash flow. Investments that do not have an established market are reported at estimated fair value. These values are based on market prices supplied to the BOI by its custodial bank, State Street Bank, and various brokerage services. The retirement systems have no investments of any commercial or industrial organization whose fair value equals 5% or more of the retirement systems net assets available for benefits.

#### **E. Long-Term Contracts for Contributions**

The Public Employees Retirement System has outstanding contributions for early retirement programs:

The 1993 Montana Legislature enacted House Bill 517--Retirement Incentive Program (RIP) providing PERS members (eligible for a service retirement) an incentive to terminate between June 25, 1993, and December 31, 1993. Local government employers participated through election on or before June 1, 1993. The employer purchased, on the members behalf, one year of additional service for each five years of qualified service ("1 for 5"), up to a maximum of three years, for any retirement eligible member who terminated employment during the defined time period. A total of 898 members took advantage of the program (630 from 32 state agencies, 95 from 6 universities, and 173 from 48 local government agencies).

The Montana Legislature also provided a new provision of the Employee Protection Act (EPA) (19-2-706, MCA) allowing State employees (eligible for a service retirement) whose positions have been eliminated to have their employer purchase up to three years of "1 for 5" additional service. As of June 30, 2001, 238 employees have taken advantage of the provision.

The employer has up to ten years to complete payment for the service purchases and is charged 8% interest on the unpaid balance. Total retirement incentive contributions received (including interest) during fiscal year 2001 totaled \$228,442. June 30, 2001, outstanding balances were \$445,814.

#### **F. Actuarial Data**

Actuarial valuations are performed every two years. Hendrickson, Miller & Associates Inc., Helena, MT, prepared the actuarial reports for the retirement systems, excluding TRS, before July 1, 1998. Employee Benefit Resources, LLP, of Helena, MT, prepared the July 1, 1998, actuarial reports for the retirement systems, excluding TRS. Milliman & Robertson, Inc., of Seattle, WA., performed the actuarial valuation for TRS for July 1, 1998, and July 1, 2000. Milliman & Robertson of Portland, OR. prepared the July 1, 2000, actuarial reports for the retirement systems, excluding TRS.



# **G. Funding Policy and Annual Pension Cost**

The following tables provide information concerning funding policies and annual pension costs (in thousands):

## **Single Employer Systems**

	<b>HPORS</b>	<b>JRS</b>
Annual pension cost	\$3,006	\$944
Contributions		
Employer	\$1,925	\$944
Employee	712	256
License and Registration fees	1,052	-0-
Actuarial valuation date	7/01/00	7/01/00
Actuarial cost method	Entry age	Entry age
Amortization method	Level percentage of total salaries, open	Level percentage of total salaries, open
Remaining amortization period	30 years	30 years
Asset valuation method	4 year smoothed market	4 year smoothed market
Actuarial Assumptions:		
Investment rate of return	8.0%	8.0%
Projected salary increases		
(includes inflation factor)	4.5%	4.5%
Merit	0%-7.3%	None
Postretirement benefit increases	None	None

## **Single Employer Systems**

<b>Year Ended</b>	<b>Annual Pension Costs (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Obligation</b>
<b>HPORS</b>			
06/30/99	\$2,602	99.7%	NONE
06/30/00	2,824	99.5%	NONE
06/30/01	3,006	101.6%	NONE
<b>JRS</b>			
06/30/99	\$ 823	100.0%	NONE
06/30/00	899	100.0%	NONE
06/30/01	944	100.0%	NONE

## Multiple Employer Systems

Year Ended	Annual Required Contribution (ARC)	Percentage of ARC Contributed	Net Obligation
<b>PERS</b>			
06/30/99	\$47,125	101.6%	NONE
06/30/00	47,695	98.7%	NONE
06/30/01	52,843	100.7%	NONE
<b>MPORS</b>			
06/30/99	\$ 8,297	98.8%	NONE
06/30/00	8,866	100.6%	NONE
06/30/01	9,149	100.1%	NONE
<b>FURS</b>			
06/30/99	\$ 7,401	99.4%	NONE
06/30/00	7,773	97.8%	NONE
06/30/01	7,854	98.6%	NONE
<b>SRS</b>			
06/30/99	\$ 1,995	104.4%	NONE
06/30/00	2,056	106.8%	NONE
06/30/01	2,159	101.9%	NONE
<b>GWPORS</b>			
06/30/99	\$ 892	104.4%	NONE
06/30/00	1,069	102.9%	NONE
06/30/01	1,339	101.9%	NONE
<b>TRS</b>			
06/30/99	\$44,987	100.0%	NONE
06/30/00	48,376	100.0%	NONE
06/30/01	51,524	100.0%	NONE

## H. Schedules of Funding Progress

## Single Employer Systems

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded AAL(UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
<b>HPORS</b>						
07/01/96	\$47,325	\$67,709	\$ 20,384	69.90%	\$6,242	326.57%
07/01/98	59,531	78,722	19,191	75.62%	6,201	309.48%
07/01/00	77,810	76,397	(1,413)	101.85%	6,952	(20.33)%
<b>JRS</b>						
07/01/96	\$24,944	\$27,723	\$ 2,779	89.98%	\$2,907	95.61%
07/01/98	31,646	29,017	(2,629)	109.06%	3,144	(83.62)%
07/01/00	42,043	27,365	(14,678)	153.64%	3,483	(421.42)%

## Multiple Employer Systems

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded AAL(UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
<b>PERS</b>						
07/01/96	\$1,629,706	\$1,826,207	\$ 196,500	89.24%	\$608,592	32.29%
07/01/98*	2,128,065	2,300,328	172,263	92.51%	660,579	26.08%
07/01/00	2,843,347	2,273,407	(569,940)	125.07%	725,692	(78.54)%
<b>MPORS</b>						
07/01/96	\$ 70,068	\$ 105,664	\$ 35,596	66.31%	\$ 15,828	224.90%
07/01/98	94,908	173,642	78,734	54.66%	17,873	440.52%
07/01/00	129,826	181,109	51,283	71.68%	20,252	253.22%
<b>FURS</b>						
07/01/96	\$ 67,745	\$ 131,111	\$ 63,366	51.67%	\$ 13,783	459.75%
07/01/98	89,988	169,006	79,018	53.25%	15,104	523.15%
07/01/00	123,492	162,329	38,837	76.08%	16,547	235.00%
<b>SRS</b>						
07/01/96	\$ 68,647	\$ 52,751	\$ (15,895)	130.13%	\$ 17,890	(88.85)%
07/01/98	92,160	81,077	(11,083)	113.67%	20,127	(55.06)%
07/01/00	126,338	87,836	(38,502)	143.83%	21,559	(178.59)%
<b>GWPRS</b>						
07/01/96	\$ 18,160	\$ 17,325	\$ (835)	104.82%	\$ 2,762	(30.23)%
07/01/98	23,190	22,412	(778)	103.47%	7,839	(9.92)%
07/01/00	32,966	23,922	(9,044)	137.81%	11,875	(76.00)%
<b>TRS</b>						
07/01/96	\$1,376,716	\$1,939,569	\$562,853	71.0%	\$501,516	112.2%
07/01/98*	1,809,037	2,342,690	533,653	77.2%	529,795	100.7%
07/01/00	2,247,500	2,648,300	400,800	84.9%	537,500	74.6%

\* PERS July 1, 1998 results adjusted by actuary.

\*\* TRS July 1, 1998 results adjusted for 1.5% guaranteed annual benefit adjustment and \$500 minimum benefit for legislation which passed in April 1999 and the new salary scale adopted in November 1998.

## Nonemployer Contributor

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded AAL(UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
<b>VFCA</b>						
07/01/96	\$11,504	\$16,636	\$ 5,132	\$ 69.15%	N/A	N/A
07/01/98	13,941	18,354	4,413	75.96%	N/A	N/A
07/01/00	17,769	16,752	(1,017)	106.07%	N/A	N/A

**7. OTHER POSTEMPLOYMENT BENEFITS**

In addition to the pension benefits described in Note 6, Retirement Systems, the following postemployment benefits are provided:

The State provides 18 to 36 months optional postemployment health care benefits in accordance with Public Law 99-272, known as the Consolidated Omnibus Budget Reconciliation Act (COBRA) to the following employees and

dependents who elect to continue and pay administratively established premiums: (1) employees who are covered by the State Group Benefits Plan at the time they discontinue State employment and (2) spouses or other dependents who lose dependent eligibility. At June 30, 2001, 80 certificate holders were receiving these benefits.

In accordance with section 2-18-704, MCA, the State also provides optional postemployment health care benefits to the following employees and dependents who elect to continue coverage and pay administratively established premiums: (1) employees and dependents who retire under applicable retirement provisions and (2) surviving dependents of deceased employees. Retirement eligibility criteria differ by retirement system (See Note 6). Administratively established retiree medical premiums vary between \$152 and \$384 per month depending on the medical plan selected, family coverage, and Medicare eligibility. Administratively established dental premiums vary between \$23.60 and \$41.60 depending on the coverage selected. The State acts as secondary payor for retired Medicare-eligible claimants. As of June 30, 2001, 3,156 retirees were covered for health care benefits.

The State reimburses all validated medical claims less member obligations (annual deductibles and co-insurance of the members selected medical plan). Dental claims are reimbursed at 50% to 100% depending on the services provided. The State funds claims on a pay-as-you-go basis. During the fiscal year, expenditures of \$15,191,516 were recognized for postemployment health care benefits. Premium contributions received from former employees amounted to \$10,730,566 leaving \$4,460,950 of claims paid in excess of premium revenue received by the State.

In accordance with section 2-18-702, MCA, the Montana University System (MUS) provides postretirement health insurance benefits to eligible employees who receive a retirement benefit from the Teachers Retirement System, Public Employees Retirement System, or an annuity under the Optional Retirement Plan and have been employed by the MUS at least 5 years. Spouses, unmarried dependent children, and surviving spouses are also eligible. Administratively established premiums vary between \$158 and \$462 per month and are revised annually. Medicare eligible plan members are assumed to be Medicare insured. After an annual \$500 deductible for non-Medicare eligible retirees, the MUS plan reimburses 75% of the first \$8,000 in medical claims and 100% thereafter. After a \$350 deductible for Medicare eligible retirees, the plan reimburses 75% for the first \$4,000 in medical claims and 100% thereafter. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare. As of June 30, 2001, 1,413 retirees were enrolled in the MUS plan. Funding for the retiree health plan is on a pay-as-you-go basis. Based on amounts recorded through June 2001, estimated expenditures of \$5,732,982 were recognized for postemployment health care benefits. Of this amount \$3,678,009 was paid by retirees through premiums and the balance of \$2,054,973 was paid by the MUS.

## **8. DEFERRED COMPENSATION PLAN**

The administration of the State of Montana Deferred Compensation Program was transferred to the PERB effective July 1, 1999. The Deferred Compensation plan is a voluntary, tax-deferred retirement plan designed to supplement State Service Retirement, Social Security and other retirement plans and savings. The State of Montana has offered this plan since 1976. Internal Revenue Service Code (Section 457) and MCA (Title 19, chapter 50) govern the plan. Assets of the deferred compensation plan are required to be held in trusts, custodial accounts or insurance company contracts for the exclusive benefit of participants and their beneficiaries.

All employees of the State, including the Montana University System and contracting agencies, are eligible to participate. The compensation deferred is not available to employees until separation from service, retirement, death, or upon an unforeseeable emergency, when still employed and meeting IRS specified criteria. Participating employees are able to direct their deferrals into two primary investment options: (1) a "fixed" or stable value option which guarantees both principal (the payroll deferrals) and a quarterly rate of earnings; and (2) a "variable" option which currently consists of twenty-three mutual funds, and five lifestyle/profile funds. Participants are allowed to participate in both options and, under the variable option, as many of the offered funds as they choose. As of June 30, 2001, the net assets of the Plan were \$200,280,115.

## **9. RISK MANAGEMENT**

There are two Primary Government public entity risk pools and two Component Unit public entity risk pools that are reported within the Enterprise Fund Type: Primary Government pools include Hail Insurance and Subsequent Injury Funds; Component Unit pools include State Compensation Insurance (New Fund) and State Compensation Insurance (Old Fund). Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other societal/economic factors. There are three Primary Government Other Than Public Entity Risk Pools reported within the Internal Service Fund Type: Group Employees Comprehensive Medical and Dental Plan, Montana University System (MUS) Group Benefits Plan, and Property and Casualty Insurance Plans. In all of these funds there are no significant reductions in insurance coverage from the prior year, nor any insurance settlements exceeding insurance coverage. These funds use the accrual basis of accounting. By statute, these funds cannot invest in common stock. Investments are recorded at fair value. Premiums and discounts are amortized using the straight-line method over the life of the securities.

## A. Public Entity Risk Pools

(1) **Hail Insurance** - Any Montana producer engaged in growing crops subject to destruction or damage by hail may participate in the Hail Insurance program. The Hail Insurance program issued 1254 policies during the 2001 growing season. This fund accounts for premium assessments paid by producers for crop acreage insured, investment and interest earnings, administrative costs and claims paid for hail damage. Depending upon the actuarial soundness of the reserve fund and the damage in a season, producers may receive a premium refund. Anticipated investment income is considered in computing a premium deficiency of which there is none.

A claim must be submitted to the State Board of Hail Insurance within fourteen days of a loss occurrence. The claim must indicate whether the grain is stemmeling, in the boot, heading out, in the milk, in the stiff dough, ready to bind, or combine. If beans, peas or other crops are damaged, the growth-stage must also be indicated. Inspection of a crop will occur as promptly as possible after claim receipt. The liability on all insured crops expires after October 1. The insurance only covers loss or damage to growing grain which exceeds 5% destruction by hail.

The fund recorded a liability of \$519,789 based on estimated claims through June 30, 2001. Any crop insurance liability is paid to producers within one year of occurrence; therefore, liabilities are not discounted. The fund has no excess insurance, reinsurance, or annuity contracts.

(2) **Subsequent Injury** - This fund provides benefits to workers, certified as disabled at the time of hiring, who are subsequently injured on the job and entitled to benefits under the Workers Compensation or Occupational Disease Act at the time of injury. The liability of the insurer for payment of compensation benefits is limited to 104 weeks of benefits actually paid. This fund will reimburse the insurer for all benefits paid after this 104 week time period. In Montana, there are 2,773 individuals with certified disabilities.

Workers compensation insurance premium experience modification factors are influenced by the 2-year limitation and employers may experience an insurance premium reduction. Therefore, this fund provides employers with a potential incentive for hiring a person with a certified disability.

This fund makes no provision for insured events of the current year. All Montana insurers are annually assessed a percentage of their paid losses sufficient to cover paid losses reimbursed from the fund in the preceding calendar year and the expenses of administration, less other income. An estimated liability is recorded based on a projected cost analysis (case-by-case) of each injured person with a certified disability. As of June 30, 2001, the amount of this liability was estimated to be \$2,719,490.

(3) **State Compensation Insurance (New Fund)** - Liability coverage to employers for injured employees who are insured under the Workers Compensation and Occupational Disease Acts of Montana and workers compensation claims occurring on or after July 1, 1990, are reported in the New Fund. The New Fund must insure any employer who desires coverage. At fiscal year-end, approximately 23,915 employers were insured with the New Fund. Montana state governmental agencies must obtain their workers compensation coverage through the New Fund. Anticipated investment income is considered for computing a premium deficiency and employers must pay premiums to the New Fund within specified time frames.

An actuarial study prepared by Tillinghast-Towers Perrin, as of June 30, 2001, has estimated liabilities and the ultimate cost of settling claims that have been reported but not settled and claims that have been incurred but not reported. Because actual claim costs depend on such complex factors as inflation and changes in the law, claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and societal factors.

A provision for inflation is implicit in the calculation of estimated future claim costs because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. As of June 30, 2001, \$325,400,000 of unpaid claims and claim adjustment expenses was presented at face value. When the New Fund purchases annuity contracts, the claim is settled in full and on a final basis, and all liability of the New Fund is terminated.

Acquisition costs represent costs associated with the acquisition of new insurance contracts or renewal of existing contracts and include agent commissions and expenses incurred in the underwriting process. New Fund acquisition costs are capitalized and amortized ratably over the subsequent year. The amount of capitalized acquisition costs at June 30, 2000, is \$378,051 and \$170,722 respectively. For the year ended June 30, 2001, \$170,722 of acquisition costs were amortized. There were no acquisition costs amortized for the year ended June 30, 2000.

The New Fund uses reinsurance agreements to reduce its exposure to large losses. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the fund as direct insurer. The New Fund did not deduct any claim liabilities related to potential reinsurance recoverable. Statute requires the New Fund set premiums at least annually at a level sufficient to ensure adequate funding of the insurance program during the period the rates will be in effect. Statute also requires the New Fund to establish a minimum surplus balance of 25% of annual premium revenue.

(4) **State Compensation Insurance (Old Fund)** - The liability and payment of workers compensation claims for incidents occurring before July 1, 1990 are reported in the Old Fund. Funding for claim payments was accumulated through an Old Fund Liability Tax (OFLT) imposed on employer payroll (0.5%), employee wages (0.2%), and sole proprietor and subchapter S shareholder distributive income. In 1999, the 56th Legislature determined that the fund was adequately funded and discontinued the OFLT. This fund does not compute a premium deficiency.

An actuarial study prepared by Tillinghast-Towers Perrin, as of June 30, 2001, was used to estimate liabilities and the ultimate cost of settling claims that have been reported but not settled and claims that have been incurred but not reported. At June 30, 2001, \$148,476,000 of unpaid claims and claim adjustment expenses was reported at net present value of \$104,700,000, discounted at a 5.5% rate. Prior to 1999, the unpaid claims and unpaid claim adjustment expenses were presented at face value. Total Old Fund surplus as of June 30, 2001, was \$22,781,565 compared to \$18,559,526 as of June 30, 2000, for a change of \$4,196,558.

(5) **Changes in Claims Liabilities For the Past Two Years** - As indicated above, these funds establish liabilities for both reported and unreported insured events including estimates of future payments of losses and related claim adjustment expenses. The following tables present changes (in thousands) in those aggregate liabilities during the past two years. All information in these tables is presented at face value and has not been discounted.

<u>Primary Government</u>	<u>Hail Insurance</u>		<u>Subsequent Injury</u>	
	2001	2000	2001	2000
Unpaid claims and claim adjustment expenses at beginning of year	\$ 457	\$ 200	\$2,279	\$2,106
Incurred claims and claim adjustment expenses:				
Provision for insured events of the current year	2,964	2,275	-	-
Increase (Decrease) in provision for insured events of prior years	396	259	379	406
Total incurred claims and claim adjustment expenses	3,360	2,534	379	406
Payments:				
Claims and claim adjustment expenses attributable to insured events of the current year	2,841	(1,818)	-	-
Claims and claim adjustment expenses attributable to insured events of prior years	456	(459)	61	(233)
Total payment	3,297	(2,277)	61	(233)
Total unpaid claims and claim adjust. exp. at end of the year	\$ 520	\$ 457	\$2,719	\$2,279

<u>Component Units</u>	<u>State Compensation Insurance (New Fund)</u>		<u>State Compensation Insurance (Old Fund)</u>	
	2001	2000	2001	2000
Unpaid claims and claim adjustments expenses at beginning of year	\$314,900	\$303,500	\$167,915	\$185,064
Incurred claims and claim adjustment expenses:				
Provision for insured events of the current year	75,465	74,445	-	-
Increase (Decrease) in provision for insured events of prior years	(1,667)	(6,049)	(5,503)	(3,728)



Component Units	State Compensation Insurance (New Fund)		State Compensation Insurance (Old Fund)	
	2001	2000	2001	2000
Total incurred claims and claim adjustment expenses	73,798	68,396	(5,503)	(3,728)
Payments:				
Claims and claim adjustment expenses attributable to insured events of the current year	(14,140)	(13,177)	-	-
Claims and claim adjustment expenses attributable to insured events of prior years	(48,658)	(43,819)	(13,936)	(13,421)
Total payment	(62,798)	(56,996)	(13,936)	(13,421)
Total unpaid claims and claim Adjust. exp. at end of the year	\$325,900	\$314,900	\$148,476	\$167,915

**(6) Risk Management Trend Information**

The following table only presents risk management trend information for the State Compensation Insurance (New Fund). Only the New Fund has a three to five year development cycle contemplated by GASB Statement 10. The State Compensation Insurance (Old Fund) does not charge a premium for its services. The Hail Insurance Fund pays claims within a calendar year cycle that parallels the growing season from spring planting to fall harvesting; therefore, it has no three to five year development cycle. State statute limits the payment of claims and the collection of premiums (and penalties) for the Subsequent Injury Fund from any developmental cycle.

The table below illustrates how the earned revenues (net of reinsurance) of the New Fund and its investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the fund as of the end of the fiscal year (in thousands). Section 3 shows the fund's incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred. Section 4 shows the cumulative amounts paid as of the end of successive years for each policy year. Section 6 shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known. Section 7 compares the latest reestimated incurred claims amount to the amount originally established (Section 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. This table will be expanded and revised as data for successive policy years develops.

	State Compensation Insurance (New Fund)				
	1992	1993	1994	1995	1996
<b>1. Premiums and Investment Revenue</b>					
Earned	\$162,216	\$213,418	\$230,333	\$189,294	\$133,469
Ceded	270	289	318	269	519
Net Earned	\$161,946	\$213,128	\$230,014	\$189,025	\$132,949
<b>2. Unallocated expenses including overhead</b>	\$ 6,588	\$ 7,889	\$ 9,060	\$ 15,131	\$ 18,192
<b>3. Estimated losses and expenses end of accident year</b>					
Incurred	\$183,425	\$186,480	\$199,890	\$164,628	\$ 95,067
Ceded	-	-	-	-	-
Net Incurred	\$183,425	\$186,480	\$199,890	\$164,628	\$ 95,067
<b>4. Net Paid (cumulative) as of:</b>					
End of policy year	\$ 20,244	\$ 18,347	\$ 18,693	\$ 18,137	\$ 15,818
One year later	50,576	46,343	45,947	40,473	32,890
Two years later	68,837	62,717	60,971	52,073	42,361
Three years later	77,950	71,666	67,576	58,722	47,283
Four years later	83,173	76,280	72,212	62,419	50,267

	<u>State Compensation Insurance (New Fund)</u>				
	1992	1993	1994	1995	1996
Five years later	86,461	80,165	75,799	65,919	52,791
Six years later	89,370	82,981	78,306	68,541	
Seven years later	91,903	85,357	80,861		
Eight years later	94,131	88,080			
Nine years later	96,690				

5. Re-estimated ceded losses and expenses	\$	-	\$	-	\$	-	\$	-	\$	1,328
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	<u>State Compensation Insurance (New Fund)</u>				
	1997	1998	1999	2000	2001
1. Premiums and Investment Revenue					
Earned	\$101,144	\$85,954	\$76,683	\$84,569	\$97,539
Ceded	348	303	260	855	2,952
Net Earned	\$100,796	\$85,651	\$76,422	\$83,714	\$94,587
2. Unallocated expenses including overhead	\$ 13,413	\$15,199	\$20,081	\$23,892	\$29,527
3. Estimated losses and expenses end of accident year					
Incurred	\$ 76,067	\$64,983	\$64,645	\$65,957	\$68,267
Ceded	-	-	838	-	-
Net Incurred	\$ 76,067	\$64,983	\$63,807	\$65,957	\$68,267
4. Net Paid (cumulative) as of:					
End of policy year	\$ 12,589	\$12,943	\$13,723	\$13,177	\$14,140
One year later	28,451	28,222	29,976	29,218	
Two years later	35,706	35,753	39,298		
Three years later	39,860	41,004			
Four years later	43,105				
Five years later					
Six years later					
Seven years later					
Eight years later					
Nine years later					

5. Re-estimated ceded losses and expenses	\$	-	\$ 1,556	\$ 1,116	\$	-	\$	-
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	<u>State Compensation Insurance (New Fund)</u>				
	1992	1993	1994	1995	1996
6. Re-estimated net incurred losses and expense:					
End of policy year	\$183,425	\$186,480	\$199,890	\$164,628	\$ 95,067
One year later	184,968	184,030	184,920	124,123	88,923
Two years later	175,218	167,052	135,472	107,074	77,286
Three years later	161,184	133,017	116,756	95,456	73,864
Four years later	135,775	120,583	107,656	94,517	74,022
Five years later	125,084	111,208	105,052	92,231	73,197
Six years later	119,780	109,415	106,039	91,771	
Seven years later	120,472	111,638	105,668		
Eight years later	120,397	111,084			
Nine years later	119,265				
7. Increase (decrease) in estimated net incurred losses and expenses from end of policy year	\$ (64,160)	\$ (75,396)	\$ (94,222)	\$ (72,857)	\$ (21,870)



	State Compensation Insurance (New Fund)				
	1997	1998	1999	2000	2001
6. Re-estimated net incurred losses and expense:					
End of policy year	\$ 76,067	\$64,983	\$63,807	\$65,957	\$68,267
One year later	67,235	64,308	64,348	66,421	
Two years later	59,054	60,467	66,660		
Three years later	60,811	61,989			
Four years later	64,439				
Five years later					
Six years later					
Seven years later					
Eight years later					
Nine years later					
7. Increase (decrease) in estimated net incurred losses and expenses from end of policy year	\$ (11,628)	\$ (2,994)	\$ 2,853	\$ 464	\$ -

#### B. Other Than Public Entity Risk Pools

(1) Group Employee Comprehensive Medical and Dental Plan - This plan is fully self-insured with the State assuming the risk for claims incurred by employees of the State, elected officials, retirees, former employees covered by COBRA benefits, and their dependents, with the following exceptions. Two plans are covered by outside insured products. The two plans not self-insured by the state are vision care services, which are insured by the Vision Service Plan and medical services covered by the Big Sky Health Plan, an insured community health option (CHO) available to state employees in the Butte, Deer Lodge, Anaconda, and Dillon areas. The state contracts with Blue Cross/Blue Shield for administration of its self-insured plans. Premiums are collected through payroll deductions, deductions through the Public Employees' Retirement Division, and self-payments and are recorded as revenue in the Employee Group Benefits Internal Service Fund. At June 30, 2001, estimates for claims liabilities, which include incurred but not reported claims, were \$7,181,391 based on a formula provided by Buck Consultants, a consulting actuarial firm. A liability is reported in the accompanying financial statements for these estimated claims.

(2) Montana University System (MUS) Group Benefits Plan - This plan was authorized by the Regents to provide medical, dental, and vision insurance coverage to employees of the Montana University System, the Student Assistance Foundation (SAF), and the State Bar of Montana, as well as their dependents, retirees, and COBRA members. The MUS Group Benefits Plan is fully self-insured with three exceptions. The three insured products are HMO's administered by New West Health Services serving some employees and dependents in Missoula, Helena, Havre, and Billings; Big Sky Health Plan serving some employees and dependents in Butte; and a voluntary vision plan administered by VSP serving employees, retirees, and their dependents. Blue Cross/Blue Shield is the claims administrator for the self-insured plan. Managed Care Montana (APS) has a contract for utilization management. The utilization management program consists of hospital pre-authorization, case management and medical necessity review. Premiums are collected from employees through payroll deductions and recorded in the MUS Group Insurance Internal Service Fund. The claims liability is calculated by Buck Consultants and estimated to be \$2,378,290 as of June 30, 2001, based on prior year experience. A liability is reported in the accompanying financial statements for these estimated claims.

(3) Property & Casualty Insurance Plans - This self-insurance plan provides coverage for general liability, automobile liability, automobile physical damage, foster care liability and State-administered foreclosure housing units. The State self-insures the \$150,000 deductible per occurrence for most property insurance as well as various deductible amounts for other state property. The State also self-insures against losses of property below \$150,000 of value, with State agencies paying the first \$1,000. Commercial property insurance protects approximately \$2.1 billion of State-owned buildings and contents. The State property insurance includes separate earthquake and flood protection coverage (each in the amount of \$100 million) with deductibles of \$1 million for earthquake and \$500,000 for flood per occurrence. Premiums are collected from all State agencies including Component Units and recorded as revenue in the Administration Insurance Internal Service Fund.

An annual actuarial study, prepared by Tillinghast-Towers Perrin Company, and issued for the accident period July 1, 1991, through June 30, 2001, is the basis for estimating the liability for unpaid claims and is supported by historical loss data. The June 30, 2001, estimated claims liability of \$25,233,529, is discounted and assumes an annual rate of return of 4%, including those claims incurred but not reported, and is reported in the accompanying financial statements.

(4) Changes in Claims Liabilities for the Past Two Years - These funds establish liabilities for both reported and incurred but not reported claims. The following table presents changes in the balances of claims liabilities during the past two fiscal years (in thousands):

	Group Employees Medical & Dental		MUS Group Benefits		Prop. & Casualty Insurance	
	2001	2000	2001	2000	2001	2000
Amount of claims liabilities at the beginning of each fiscal year	\$ 7,080	\$ 6,903	\$ 2,271	\$ 1,878	\$25,347	\$17,100
Incurred claims:						
Provision for insured events of the current year	54,809	48,724	26,007	24,380	6,314	5,784
Increases (Decreases) in provision for insured events of prior years	101	177	107	393	(877)	12,128
Total incurred claims	54,910	48,901	26,114	24,773	5,437	17,912
Payments:						
Claims attributable to insured events of the current year	(50,140)	(48,724)	(26,007)	(24,380)	(1,205)	(1,237)
Claims attributable to insured events of prior years	(4,669)	-	-	-	(4,345)	(8,428)
Total Payments	(54,809)	(48,724)	(26,007)	(24,380)	(5,550)	(9,665)
Total claims liability at end of each fiscal year	\$ 7,181	\$ 7,080	\$ 2,378	\$ 2,271	\$25,234	\$25,347

#### 10. COMMITMENTS

**A. Highway Construction** - At June 30, 2001, the Department of Transportation had contractual commitments of approximately \$185.2 million for construction of various highway projects. Funding for these highway projects is to be provided from federal grants and matching state special revenue funds.

**B. Capital Construction** - At June 30, 2001, the Department of Administration, Architecture & Engineering Division, had commitments of approximately \$22.4 million for capital projects construction. The Primary Government will fund \$22.3 million of these projects with the remaining \$100 thousand coming from higher education funds.

**C. Proprietary Fund Commitments** - Budgets are administratively established in the Enterprise and Internal Service Funds, excluding depreciation, compensated absences and bad debt expense. Appropriations may be committed for goods/services that are not received as of fiscal year-end. These executory commitments are included in unreserved retained earnings in the accompanying financial statements as follows (in thousands):

Primary Government	Amount
<b>Enterprise Funds</b>	
Liquor Warehouse	\$ 59
Historical Society Publications	2
Subtotal-Enterprise Funds	\$ 61
<b>Internal Service Funds</b>	
Highway Equipment	\$2,154
FWP Equipment	64
ISD	604
Bad Debt Division	49
Administration Supply	53
Buildings & Grounds	211
Labor Central Services	37
DEQ Indirect Cost Pool	55
FWP Warehouse Inventory	30
Subtotal-Internal Service Funds	\$3,257
Total-Primary Government	\$3,318
<b>Component Units</b>	
State Compensation Ins - New Fund	\$ 13
Total-Proprietary Fund Types-Reporting Entity	\$3,331

# 11. LEASES/INSTALLMENT PURCHASES PAYABLE

The State has entered into various capital and operating leases for land, buildings, equipment and computer software. Lease contracts are required by law to contain a clause indicating continuation of the lease is subject to funding by the Legislature. It is expected that in the normal course of operations most of these leases will be replaced by similar leases.

**A. Capital Leases/Installment Purchases** - Changes in capitalized leases/installment purchases are as follows (in thousands):

	Balance July 1, 2000	Additions (Deductions)	Balance June 30, 2001
<b>Primary Government</b>			
General Long-Term Obligations	\$3,001	\$ (661)*	\$2,340
<b>Proprietary Fund Types</b>			
Enterprise Fund	\$ -	\$ -	\$ -
Internal Service Fund	2,871	(220)	2,650
Total Proprietary	2,871	(220)	2,650
Total-Primary Government	\$5,872	\$ (881)	\$4,990
<b>Component Units</b>			
State Fund	\$ 42	\$ (7)	\$ 34
Pension Trust Fund	2,159	(1,589)	570
Higher Education Funds	1,386	(141)	1,245
Total-Component Units	\$3,587	\$(1,737)	\$1,849
<b>Total Capitalized Leases/ Installment Purchases</b>	<b>\$9,459</b>	<b>\$(2,618)</b>	<b>\$6,839</b>

\*This amount consists of \$265,000 of additions as inceptions; \$3,000 of additions as adjustments; and \$(929,000) as deductions.

Future minimum lease payments under capital leases/installment purchases are as follows (in thousands):

Fiscal Year Ending June 30	Primary Government		Component Units			
	General Long-Term Obligations	Proprietary Fund Type Internal Service	State Fund	Pension	Higher Education Funds	Total
2002	\$ 929	\$1,552	\$11	\$578	\$ 536	\$ 3,606
2003	632	961	11	-	476	2,080
2004	531	289	11	-	198	1,029
2005	49	1	11	-	92	153
2006	34	-	-	-	58	92
2007+	353	-	-	-	-	353
Total minimum pmts	\$2,528	\$2,803	\$44	\$578	\$1,360	\$ 7,313
Less: Interest	188	152	9	8	115	472
Present value of minimum payments	\$2,340	\$2,651	\$35	\$570	\$1,245	\$ 6,841

**B. Operating Leases** - Total rental payments of primary government and component units for operating leases in fiscal year 2001 were \$9,515,000 and \$698,000, respectively. Future rental payments under operating leases are as follows (in thousands):

Fiscal Year Ending June 30	Primary Government	Component Units	Total
2002	\$ 9,305	\$ 430	\$ 9,735
2003	7,059	227	7,286
2004	5,858	175	6,033
2005	5,508	160	5,668
2006	4,419	16	4,435
2007+	22,261	6	22,267
Total future rental payments	\$54,410	\$1,014	\$55,424

## 12. STATE DEBT

A. **General Information** - The State has no constitutional limit on its power to issue obligations or incur debt other than a provision that no debt may be created to cover deficits incurred because appropriations exceeded anticipated revenues. The Board of Examiners (consisting of the Governor, Secretary of State and Attorney General) is authorized, pursuant to various enabling acts, to issue bonds and notes of the State.

B. **Short-Term Debt** - The Board of Examiners, upon recommendation of the Department of Administration, may issue notes in anticipation of the receipt of taxes and revenues. No notes may be issued to refund outstanding notes. The notes must be redeemed by the end of the fiscal year in which issued.

The Board of Investments (BOI) of the State of Montana is authorized to issue Municipal Finance Consolidation Act Bonds which may not aggregate more than \$75 million. The purpose of the bonds is to provide funds for the BOI to make loans to eligible local government units. The bonds are not in any way a debt or liability of the State of Montana. The bonds are limited obligations of the BOI payable solely from repayments of principal and interest on loans made by the BOI to participating local government units, investment income under the indenture and an irrevocable pledge by the BOI. The BOI has no taxing power. Bondholders may elect to have their bonds purchased by the Trustee on March 1 of each year until maturity. These issues are considered to be demand bonds and have been classified as short-term debt. The amounts issued and outstanding at June 30, 2001, were as follows (in thousands):

Series	Amount Issued	Balance June 30, 2001
1992	\$ 6,500	\$ 6,150
1994	7,500	7,080
1995	7,500	7,225
1997	10,000	9,850
1998	12,500	12,375
2000	15,000	15,000
<b>Total</b>		<b>\$57,680</b>

C. **Long-Term Debt** - The full faith, credit and taxing powers of the State are pledged for the payment of all general obligation debt. Revenue bonds and mortgage bonds are secured by a pledge from the facilities to which they relate and by certain other revenues, fees and assets of the State and the various colleges and universities. Long-term debt (excluding bonds/notes of Enterprise Funds and Internal Service Funds discussed elsewhere in this footnote; Leases - Note 11 and Compensated Absences - Note 1) of the State at June 30, 2001, was as follows (in thousands):

General Obligation Debt	Series	Amount Issued	Interest Range (%)	Principal Payments		Balance June 30, 2001
				FY 2002	In Year of Maturity (9)	
Water Development Program (1)	1998B	\$ 500	8.55	\$ 25	\$ 50 (2010)	\$ 325
Water Development Program (1)	1991A	750	8.0	55	90 (2007)	430
Wastewater Treatment Works	1991B	2,595	6.1-6.8	100	215 (2014)	1,965
GO Refunding	1992	31,330	5.4-6.2	395	390 (2010)	3,870
Energy Conservation Program (2)	1993A	1,500	4.6-4.75	165	180 (2004)	515
Long-Range Bldg Program	1993B	3,185	4.1-4.25	275	310 (2004)	875
Renewable Resource Development (1)	1993C	750	5.4-5.65	85	95 (2004)	270
Long-Range Bldg Program	1994A	22,540	4.2-6.0	965	1,725 (2014)	16,895
Wastewater Treatment Works	1994B	2,200	5.0-6.1	80	180 (2016)	1,845
Long-Range Bldg Program	1994C	21,955	5.125-5.4	855	1,000 (2005)	3,705
Energy Conservation Program (2)	1994D	1,600	5.2-5.5	170	200 (2005)	740

General Obligation Debt	Series	Amount Issued	Interest Range (%)	Principal Payments		Balance June 30, 2001
				FY 2002	In Year of Maturity (9)	
Renewable Resource Development (1)	1994E	750	7.8-8.1	80	105 (2005)	370
Energy Conservation Program (2)	1996A	1,650	4.05-4.4	165	195 (2006)	895
Renewable Resource Development (1)	1996B	1,250	5.8-6.1	125	155 (2006)	695
Wastewater Treatment Works	1996C	2,765	4.7-5.75	115	120 (2017)	2,400
Long-Range Bldg Program	1996D	30,075	5.25-6.0	1,100	2,370 (2017)	26,180
Renewable Resource Development (1)	1996E	1,000	6.95-7.75	95	130 (2007)	675
Renewable Resource Development (1)	1997A	2,000	6.8-7.4	95	210 (2013)	1,745
Long-Range Bldg Program	1997B	12,640	4.6-5.0	725	595 (2018)	10,615
Wastewater Treatment Works	1998A	3,510	4.0-5.15	125	260 (2019)	3,275
Long-Range Bldg Program	1998B	34,545	3.85-4.85	1,270	2,555 (2018)	30,945
Information Technology	1998C	41,390	4.5-5.0	5,770	4,075 (2008)	28,035
Long-Range Bldg Program	1998D	14,855	4.4-5.0	95	1,720 (2015)	14,480
Energy Conservation Program (2)	1998E	1,250	4.15-4.6	115	150 (2008)	915
Renewable Res. Prgm Loans-Taxable	1999	1,035	6.0-6.5	45	105 (2015)	990
Long-Range Bldg Program	1999C	16,990	4.0-5.0	595	1,250 (2019)	15,640
Drinking Revolving Fund (12)	1998F	3,065	3.65-4.85	115	230 (2019)	2,955
Renewable Resource Development (1)	2000	1,476	4.0	52	106 (2020)	1,426
Drinking Water Revolving Fund (12)	2000A	2,990	4.25-5.6	90	240 (2021)	2,990
Pollution Control Revolving Fund (12)	2000B	3,325	4.25-5.6	100	270 (2021)	3,325
Long-Range Bldg Program	2000C	17,195	5.0-5.55	480	1,320 (2020)	15,920
Information Technology	2000D	18,000	5.0	1,210	2,250 (2010)	16,040
Information Technology	2000E	800	5.6	250	270 (2003)	520
Renewable Resource Development (1)	2000F	1,584	4.0	89	56 (2003)	1,541
Renewable Resource Development (1)	2001A	1,400	4.0	99	55 (2013)	1,400
Long-Range Bldg Program	2001B	11,430	4.1-5.75	790	830 (2021)	11,430
Information Technology	2001C	1,600	3.85-4.2	180	185 (2011)	1,600
Energy Conservation Program	2001D	1,250	3.85-4.2	145	145 (2011)	1,250
Renewable Resource Development (1)	2001E	1,040	5.2-6.8	105	105 (2017)	1,040
Renewable Resource Development (1)	2001F	145	4.0	37	32 (2004)	145
Drinking Revolving Fund (12)	2001G	3,190	4.0-4.75	235	235 (2022)	3,190
Pollution Control Revolving Fund (12)	2001H	2,690	4.0-4.75	200	200 (2022)	2,690
Total General Obligation Debt		\$325,790		\$17,322		\$236,732
Special Revenue Bonds						
Water Conservation (3)	-	\$ 50	5.0	\$ 2	\$ 1 (2012)	\$ 23
Broadwater Power Project (4)(6)	1990A	3,800	9.5	430	430 (2002)	430
Broadwater Power Project (4)(5)	1991A	21,735	6.4-6.875	-	2,135 (2018)	21,735
Water Development Program (4)	1992A	11,955	5.6-6.1	990	770 (2006)	5,100
Water Development Program (4)	1992B	9,375	5.3-6.0	395	795 (2013)	6,840
Department of Transportation	1993	72,375	5.0-5.05	12,470	3,705 (2004)	29,270
Renewable Resource Program (4)	1996A	14,985	4.35-5.2	1,055	110 (2017)	10,285
Renewable Resource Program (4)	1997A	1,205	6.5-7.3	35	110 (2017)	1,110
Renewable Resource Program (4)	1997B	2,660	4.4-5.375	90	210 (2017)	2,410
Developmental Center Project (8)	1994	13,100	5.4-6.4	370	1,015 (2019)	11,425
State Hospital Project (8)	1997	25,915	4.15-5.0	710	1,820 (2022)	24,580
Renewable Resource Program (4)	2001A	420	3.65-5.59	15	30 (2021)	420
Renewable Resource Program (4)	2001B	1,750	5.2-7.1	45	150 (2021)	1,750
Total Special Revenue Bonds		\$179,325		\$16,607		\$115,378
Middle Creek Dam Project (7)	\$ 2,990	8.125	\$ 37	124 (2034)	\$ 3,019	
Tongue River Dam Project (11)	11,300	-	285	290 (2039)	10,715	
Dept. of Justice INTERCAP Loan (10)	500	Variable	50	50 (2007)	300	
Dept. Of Environmental Quality INTERCAP Loan (10)	1,212	Variable	115	75 (2008)	851	
Dept. Of Corrections Resident Accounting System Loan (13)	320	5.73	60	71 (2005)	263	
Office of the Commissioner of Higher Education INTERCAP Loan (10)	215	Variable	50	58 (2005)	215	
Natural Resrc. Damage Lit. Pgm. (14)	1,517	-	-	-	1,517	

Special Revenue Bonds	Series	Amount Issued	Interest Range (%)	Principal Payments		Balance June 30, 2001
				FY 2002	In Year of Maturity (9)	
Total Notes Payable		\$ 18,054		\$ 597		\$ 16,880
Total Special Revenue Debt						\$368,990

- (1) All Water Development Program Bonds and the Renewable Resource Development Bonds are secured additionally by a pledge of, and payable from, certain coal severance taxes. Series 1989B, 1991A and 1993C bonds are also secured by a pledge of loan repayments from loans made from the bond proceeds.
- (2) Bonds issued for financing the design, construction and installation of energy conservation projects at various State buildings.
- (3) Bonds sold to Farmers Home Administration.
- (4) Issued by the Department of Natural Resources and Conservation (DNRC) and backed by a pledge of coal severance taxes and project revenues.
- (5) First payment of \$795,000 is due in 2003.
- (6) Bonds were sold to the Montana Board of Investments.
- (7) U.S. Bureau of Reclamation loan to Montana Department of Natural Resources & Conservation. The outstanding balance includes \$251,160 of interest owed.
- (8) Montana Health Facility Authority Loan to the Department of Public Health and Human Services for the Montana Developmental Center Project and the Montana State Hospital Project.
- (9) Year of maturity refers to fiscal year.
- (10) Montana Board of Investments loans to Departments from the INTERCAP loan program.
- (11) Northern Cheyenne Tribe loan to the Montana Dept. of Natural Resources & Conservation (DNRC). The loan will not accrue interest and will be repaid over 39 years. Loan repayment is secured by the issuance of a coal severance tax bond to the tribe.
- (12) Provide matching funds to enable the State to obtain capitalization grants from the U.S. Environmental Protection Agency for water system development loans to state political subdivisions.
- (13) Northwest loan to provide funds for the development of a Y2K compliant resident accounting system.
- (14) Board of Investments loan to the Department of Justice for the Natural Resource Damage Litigation Program. Loan repayment is secured by a pledge of amounts to be recovered in the ongoing litigation with Atlantic Richfield Company.

Board of Regents Issues Higher Education Units- Component Unit	Series	Amount Issued	Interest Range (%)	Principal Payments		Balance June 30, 2001
				FY 2002	In Year of Maturity	
University of Montana-Missoula (U of M)	1993A/1998E 1999F	110,816	4.1-5.8	\$2,399	\$ 760 (2026)	\$ 99,098
Montana State University-Bozeman (MSU)	1987A/1993A 1996D/1996B 1998E/1998F 1995C/1998E	87,677	4.0-8.0	3,220	5,590 (2022)	74,347
Montana Tech of the U of M	1999F	17,208	4.1-5.75	395	932 (2024)	12,620
MSU - Billings	1996D/1998F	18,955	4.0-5.625	585	1,070 (2026)	16,610
MSU - Northern	1994C/1998F	3,450	4.0-6.0	185	100 (2015)	2,600
Western Montana College of the U of M (WVMC)	1993A/1998E 1999F	7,846	4.1-5.75	95	858 (2024)	7,313
Helena College of Technology of the University of Montana (HCT)	1999F	757	4.3-5.75	5	85 (2024)	743
		\$246,709		\$6,884		\$213,331
Add: Unamortized Premium						17
Less: Unamortized Discount						(2,164)
Total Higher Education Bonded Debt						\$211,184



## Board of Regents Issues

## Higher Education Units-

## Component Unit

Series	Amount Issued	Interest Range (%)	Principal Payments		Balance June 30, 2001
			FY 2002	In Year of Maturity	
	1,486	Variable	214	2 (2011)	1,090
	281	8.5	8	28 (2017)	255
	559	Variable	117	31 (2007)	468
	162	6.28	24	28 (2004)	78
	2,538	Variable	424	9 (2010)	2,306
	58	5.31-5.54	20	20 (2002)	20
	44	5.63	10	10 (2002)	10
	277	5.28-5.34	74	33 (2003)	107
	5	6.24	2	2 (2002)	2
	32	6.28	11	11 (2002)	11
	69	5.34	23	23 (2002)	23
	338		80	90 (2005)	338
	391	Variable	35	7 (2010)	325
	20	8.7	5	6 (2003)	11
	85	7.75	19	7 (2005)	69
	1,560	Variable	179	10 (2011)	958
	13	6.5	2	2 (2005)	9
	49	6.5	17	18 (2003)	35
	24	6.5	4	5 (2005)	19
	90	Variable	50	26 (2003)	77
	\$ 8,081		\$ 1,318		\$ 6,211

## Total Higher Education Funds

\$217,395

**Debt service requirements** (principal and interest) for long-term notes/bonds payable reported in the General Long-Term Obligations Account Group and Higher Education Funds are as follows (in thousands):

Fiscal Year Ending June 30	General Obligation Debt	Special Revenue Bonds	Higher Ed Bonded Debt	Non- Bonded Debt	Total Requirements
2002	\$ 27,288	\$ 22,617	\$ 17,592	\$ 2,511	\$ 70,008
2003	26,849	22,894	17,573	1,846	69,162
2004	25,604	13,079	17,644	1,631	57,958
2005	24,885	9,269	17,654	1,422	53,230
2006	24,497	8,802	17,446	1,136	51,881
2007+	200,984	89,102	280,452	15,150	585,688
Total	<u>\$330,107</u>	<u>\$165,763</u>	<u>\$368,361</u>	<u>\$23,696</u>	<u>\$887,927</u>

**A summary of changes in long-term liabilities payable** reported in the General Long-Term Obligations Account Group for the fiscal year ending June 30, 2001, was as follows (in thousands):

	Balance July 1, 2000	Additions(1)	Reductions	Balance June 30, 2001
Early Retirement Benefits	\$ 227	\$ 195	\$ 83	\$ 339
Arbitrage Rebate Tax	1,025	400	-	1,425
General Obligation Debt	228,269	24,511	16,048	236,732
Special Revenue Debt	146,354	3,372	17,720	132,006
Total	<u>\$375,875</u>	<u>\$28,478</u>	<u>\$33,851</u>	<u>\$370,502</u>

(1) Loan and Bond Proceed amounts recorded in the financial statements for General Obligation and Special Revenue Debt include the effects of bond discounts and premiums. The additions in long-term debt include new issues of bonds and loans with a face value of \$27,883,382 that were issued at par.

**D. Early Retirement Benefits Note** - The 1993 Montana State Legislature granted an early retirement incentive. The incentive consisted of an additional three years of employer and employee contributions paid by the employer agency to the State of Montana Public Employees Retirement System. The payments may be made over a period of time not to exceed ten years at an interest rate of 8%. Debt Service requirements are as follows (in thousands):

	Principal Payments		Balance June 30, 2001
	FY 2002	In Year of Maturity	
Primary Government:			
General Obligation Debt	\$49	\$ 7	\$339
Component Unit:			
Higher Education Units	8	10	26
Total	\$57	\$17	\$365

#### **E. Refunded and Early Retired Bonds**

During fiscal year 2001, the Department of Natural Resources and Conservation (DNRC) used current available resources to pre-pay \$75,000 of Series 1990A Water Development Program Revenue Bonds and \$230,000 of Series 1992A Water Development Program Revenue Bonds.

During fiscal year 2001, the Montana Board of Housing issued \$142,940,000 of Single Family bonds. Series 2000B was issued on September 14, 2000 in the amount of \$71,940,000 and Series 2001A was issued on May 31, 2001, in the amount of \$71,000,000. In conjunction with the issuance of the 2000B bonds, the Board refunded the 1990C bond issue on October 1, 2000. Single Family bond issue Series 2001A refunded the 1991A and 1991B bond issues on July 1, 2001. The Housing Authority deferred \$135,341 of costs related to the refunding of the 1990C, 1991A and 1991B bonds. The refunding of the 1990C bonds resulted in an economic gain of \$737,211 and difference in cash flows of \$498,338.

In prior years, the State of Montana and the Board of Regents of Higher Education have issued general obligation and revenue refunding bonds, the proceeds of which were used to defease certain bond issues already outstanding. The proceeds of the refunding issues were placed in escrow accounts and invested in U.S. Treasury Obligations that, together with interest earned thereon, will be sufficient for future payment of principal and interest on the refunded issues. Accordingly, the debt is considered defeased for financial reporting purposes and the liability for the defeased bonds is not included in the financial statements. At June 30, 2001, in-substance defeased bonds outstanding were as follows (in thousands):

General Obligation	\$10,045
Higher Education Revenue	83,332
Total	\$93,377

#### **F. Proprietary & Pension Funds**

**(1) Economic Development & Municipal Finance Consolidation Act Bonds (EDB)** - This program is directed by the nine-member Board of Investments which is attached to the Department of Commerce for administrative purposes. This program assists Montana's small businesses and local governments in obtaining long-term, fixed rate financing through private Montana lending institutions. Outstanding obligations are as follows (in thousands):

Program	Series	Amount Issued	Interest Rate (%)	Principal Payments		Balance June 30, 2001
				FY 2002	In Year of Maturity	
Municipal Finance Consolidation Act Bonds (Irrigation Program) (a)	1988	\$ 4,976	6.60-7.75	\$ 505	\$ 130 (2014)	\$ 2,618
Municipal Finance Consolidation Act Bonds (School District Pooled Refunding Program) (b)	1991	6,234	4.75-6.5	283	294 (2005)	1,149
<b>Total Bonds Payable</b>		<b>\$11,210</b>		<b>\$ 788</b>		<b>\$ 3,767</b>
Conservation Reserve Enhancement Program (CRP Notes) (c)		10,232	6.50-9.92	1,332	1,608 (2008)	10,232
<b>Total Bonds/Notes Payable</b>		<b>\$21,442</b>		<b>\$2,120</b>		<b>\$13,999</b>



- (a) These bonds were issued to obtain funds for the Board of Investments, State of Montana, to purchase the refunding bonds of participating Irrigation Districts for the purpose of prepaying the U.S. Department of Interior, Bureau of Reclamation Projects Loans. The Irrigation Bonds and the interest thereon are payable solely from the collection of a special tax or assessment which is a lien against real property in the Irrigation District. The Irrigation Bonds are not obligations of the State of Montana. However, the Irrigation Bonds are limited obligations of the Board of Investments due to an irrevocable pledge to lend money for deposit by the Trustee of the Irrigation District Pooled Loan Program Reserve Account E in an amount equal to any deficiencies therein on any payment date. The indenture does not permit the issuance of additional bonds.
- (b) These bonds were issued for the purpose of providing funds for the Board of Investments, State of Montana, to purchase the general obligation refunding bonds of participating Montana School Districts. The School District Refunding Bonds and the interest thereon are payable from real property taxes levied within the school district. These bonds are limited obligations of the Board of Investments, and are not a debt or liability of the State of Montana, and neither the faith and credit nor the taxing power of the State is pledged to the payment of principal or interest on the bonds.
- (c) These bonds and notes were issued for the purpose of providing funds for the Board of Investments, State of Montana, to make loans to participating farmers and ranchers under its Conservation Reserve Enhancement Program. The Series 1991 Bonds are not in any way a debt or liability of the State of Montana, and neither the full faith and credit, nor the taxing power of the State of Montana is pledged to the payment of the principal or interest on the Series 1991 Bonds. However, the 1991 Bonds are limited obligations of the Board of Investments. The Bond Anticipation Notes (BAN), which matured on November 15, 1992, were reissued to correspond with maturities per the underlying loans. On November 15, 1994, eleven BANs were reissued to comply with statutory requirements limiting the maturity of notes to five years from issuance date. The outstanding BANs as of November 15, 1996 were reissued as bonds to comply with statutory requirements. The board now issues CRP bonds for the duration of the CRP contract purchased.

**Debt service requirements (principal & interest) for EDB are as follows (in thousands):**

2002	2003	2004	2005	2006	2007+	Total
\$3,094	\$3,001	\$2,845	\$2,614	\$2,046	\$4,560	\$18,160

- (2) **Internal Service Fund Bonds/Notes Payable** - State agencies may obtain long-term financing for Internal Service Funds through the Board of Investments INTERCAP loan program. Outstanding obligations at June 30, 2001, follow (in thousands):

Department	Amount Issued	Interest Rate (%)	Principal Payments		Balance June 30, 2001
			FY 2002	In Year of Maturity	
Department of Transportation - Motor Pool	\$12,093	4.75%	\$2,438	\$428 (2005)	\$5,718
<b>TOTAL BONDS/NOTES PAYABLE</b>	<b>\$12,093</b>		<b>\$2,438</b>		<b>\$5,718</b>

Debt service requirements (principal & interest) for Internal Service Funds are as follows (in thousands):

2002	2003	2004	2005	2006	2007+	Total
\$2,637	\$1,666	\$1,186	\$428	\$-	\$-	\$5,917

- (3) **Pension Trust Fund Bonds/Notes Payable** - State agencies may obtain long-term financing for Pension Trust Funds through the Board of Investments INTERCAP loan program. Outstanding obligations at June 30, 2000, follow (in thousands):

Department	Amount Issued	Interest Rate (%)	Principal Payments		Balance June 30, 2001
			FY 2002	In Year of Maturity	
Public Employees Retirement System (a Component Unit of the State of Montana)	\$670	4.75%	\$-	\$112(2010)	\$670
<b>Total Bonds/Notes Payable</b>	<b>\$670</b>		<b>\$-</b>		<b>\$670</b>

Debt service requirements (principal & interest) for Pension Trust Funds are as follows (in thousands):

2002	2003	2004	2005	2006	2007+	Total
\$-	\$81	\$86	\$90	\$95	\$318	\$670

(4) **Enterprise Fund Notes Payable** - State agencies may obtain long-term financing for Enterprise Funds. Outstanding obligations at June 30, 2001, were as follows (in thousands):

Department	Amount Issued	Interest Rate (%)	Principal Payments		Balance June 30, 2001
			FY 2002	In Year of Maturity	
Montana State Lottery (administered by the Department of Commerce)	\$5,025	5.12	\$1,002	\$1,110 (2004)	\$3,167
<b>Total Bonds/Notes Payable</b>	<b>\$5,025</b>		<b>\$1,002</b>		<b>\$3,167</b>

Debt service requirements (principal & interest) for Enterprise Funds are as follows (in thousands):

2002	2003	2004	2005	2006	2007+	Total
\$1,146	\$1,146	\$1,146	\$-	\$-	\$-	\$3,438

(5) **Board of Housing (BOH) (Housing Authority) - Component Unit - Revenue Bonds** - The Montana Board of Housing is authorized to have an aggregate of \$975 million of housing mortgage bonds outstanding. The bonds are payable from mortgage loan repayments and investment earnings. All bonds issued to date are secured by federally insured or guaranteed mortgages. Statutory provisions exist wherein the Governor shall include in the executive budget submitted to the legislature the sum required to fund possible future deficiencies in required reserves; however, the legislature is not legally required to appropriate funding for such deficiencies. None of the outstanding bonds were issued under these provisions. BOH Revenue Bonds (net) outstanding at June 30, 2001, were as follows (in thousands):

Program	Series	Amount Issued	Interest Rate (%)	Principal Payments		Balance June 30, 2001
				FY 2002	In Year of Maturity	
Single Family I	1997A	\$ 91,360	4.0-6.15	\$ 875	\$ 915 (2038)	\$ 78,210
	1999A	60,000	4.35-5.75	100	1,905 (2032)	56,885
	2000A	87,695	4.15-6.45	260	3,070 (2032)	83,630
	2000B	71,940	4.25-7.59	190	2,650 (2032)	71,355
	2001A	71,000	3.35-5.70	185	1,575 (2003)	71,000
Subtotal		\$ 381,995		\$1,610		\$361,080
Single Family II	1983C	\$ 114,998	5.75-10.7	\$ -	\$ 600 (2010)	\$ 6,590
	1984A	75,002	7.0-11.5	-	5 (2010)	2
	1985A	40,000	5.5-9.75	1,263	4,085 (2016)	5,112
	1985B	74,997	5.7-9.75	-	255 (2011)	2,375
	1992RA	22,520	5.65-6.5	-	10 (2033)	22,520
	1994A	25,725	3.1-6.1	1,280	375 (2025)	9,570
	1994B	40,815	3.8-6.9	835	60 (2008)	3,515
	1994C	20,000	4.5-6.8	50	35 (2027)	1,360
	1995A	33,580	4.75-6.55	315	57 (2027)	16,445
	1995B	88,000	4.2-6.4	710	1,420 (2036)	82,315
	1996A	65,000	4.7-6.375	730	1,770 (2029)	47,630
	1998A	51,780	4.0-5.45	770	215 (2031)	47,060
	1998B	65,000	4.65-5.35	920	300 (2031)	61,515
Subtotal		\$ 717,417		\$6,873		\$306,009
Single Family III	1988B1-B2	\$ 25,000	6.0-8.9	\$ 80	\$ 65 (2021)	\$ 1,825
Single Family VIII	1991A1-A2	25,000	5.2-8.275	210	535 (2023)	6,450
Single Family IX	1991B1-B2	25,000	5.5-8.4	220	540 (2023)	6,945
Single Family X	1992A1-A2	25,000	4.45-7.85	315	665 (2024)	9,020

Program	Series	Amount Issued	Interest Rate (%)	Principal Payments		Balance June 30, 2001
				FY 2002	In Year of Maturity	
Multifamily	1978A	4,865	6.125	65	425 (2020)	2,540
	1992A	9,725	2.95-6.55	210	50 (2024)	8,400
	1996A	890	4.10-6.15	15	60 (2027)	830
	1998A	1,625	3.5-5.2	70	40 (2030)	1,495
	1999A	9,860	4.95-8.45	150	425 (2041)	9,791
Subtotal		\$ 26,965		\$ 510		\$ 23,056
Total		\$1,226,377		\$9,818		\$714,385

Add: Deferred amount on refunding

(51)

Add: Unamortized bond premiums

(313)

Total BOH Bonds Payable (net)

\$714,021

Debt service requirements (principal & interest) for all BOH programs are as follows (in thousands):

2002	2003	2004	2005	2006	2007+	Total
\$51,248	\$53,747	\$55,271	\$54,035	\$53,624	\$1,250,582	\$1,518,507

**G. No-Commitment Debt** - Information is presented below for financing authorities participating in debt issues. The State has no obligation for this debt. Accordingly, these bonds and notes are not reflected in the accompanying financial statements.

**(1) Montana Board of Investments (BOI)** - The BOI is authorized to issue industrial revenue bonds to finance projects for qualifying borrowers. Assets and revenues of the borrower are pledged to repay the bonds. The industrial revenue bonds issued by BOI do not constitute a debt, liability, obligation or pledge of faith and credit of the State of Montana. At June 30, 2001, outstanding industrial revenue bonds were as follows (in thousands):

Project	Date of Issue		Amount Issued	Amount Outstanding
Montana Cenex	August	1985	\$ 3,925	\$ 3,925
Colstrip	October	1989	60,800	60,800
Yellowstone Energy (BGI)	July	1993	118,345	117,845
Stillwater Mining	July	2000	30,000	30,000
Total			\$213,070	\$212,570

**(2) Beginning Farm Loan Program** - The Montana Department of Agriculture is authorized to request issuance of bonds by the Montana Board of Investments to finance projects for beginning farmers within the State, if it appears, after a properly noticed public hearing, that the project is in the public interest of the State. These non-recourse, industrial development revenue bonds do not constitute a debt, liability, or obligation of the State of Montana. The amount issued and outstanding at June 30, 2001, was as follows: Jorgensen Project - issued \$81,600; outstanding \$1,792.

**(3) Montana Health Facility Authority (MHFA) - Component Unit** - The MHFA is authorized to issue bonds and notes to finance projects for qualifying health institutions. The following obligations issued by MHFA do not constitute a debt, liability, obligation or pledge of faith and credit of the State of Montana. At June 30, 2001, the MHFA had issued bonds and notes as follows (in thousands):

Project	Date of Issue		Amount Issued	Amount Outstanding
West Mont Home Health Services	June	1985	\$ 440	\$ 8
MHFA 1985 Pooled Loan Projects	December	1985	66,900	35,900
Community Provider Pooled Loans	October	1988	1,461	307
Community Provider Pooled Loan	July	1990	5,858	3,368
Deaconess Medical Center (Series A)	February	1991	18,000	17,300
Deaconess Medical Center (Series B)	February	1991	18,000	17,300
Sisters of Providence	May	1991	45,020	4,310
Deaconess Medical Center	September	1991	32,650	25,450
Community Provider Pooled Loans	September	1991	3,944	2,744
Hospital Pooled Loans (1)	August	1992	4,645	1,465
Richland Opportunities	January	1993	200	147
Bozeman Deaconess Foundation	June	1993	14,900	8,355

Project	Date of Issue	Amount Issued	Amount Outstanding
Sisters of Charity	January 1994	50,915	37,590
Deaconess-Billings Clinic	January 1994	58,870	58,870
Residential Support Services	March 1994	50	28
St. Johns Retirement Home	October 1994	2,000	1,805
North Valley Hospital (Series D) (1)	October 1994	1,310	645
Northern MT (1)	October 1995	5,645	4,335
Northern MT	November 1995	6,090	5,285
Toole County Hospital	August 1996	1,635	1,300
Marcus Daily Memorial Hospital	August 1996	1,860	1,485
Glendive Community Hospital	August 1996	1,590	1,270
Mission Ridge	August 1996	17,835	17,835
Community Medical Center-Missoula	August 1996	20,730	19,230
Benefis	September 1996	16,680	9,850
St. Peters Hospital	January 1997	19,875	15,015
Regional Services (Beartooth Industries)	September 1997	260	240
Alternatives, Inc.	November 1997	2,925	2,645
Big Horn	February 1998	1,425	1,285
Lewis & Clark County (Cooney)	February 1998	1,730	1,555
North Valley	February 1998	1,980	1,445
Lewis & Clark County (Clinic)	February 1998	860	770
Sisters of Charity	March 1998	137,800	135,010
Opportunity Resources, Inc.	June 1998	400	364
Kalispell Regional Hospital	August 1998	19,630	17,555
Bozeman Deaconess	August 1998	13,500	12,170
Missoula Correctional (Prerelease)	October 1998	5,580	5,415
Great Falls Prerelease	October 1998	1,300	1,165
Community Medical 99 (Missoula)	January 1999	2,300	1,380
Providence Svc. (St. Pat & Joe)	July 1999	25,025	25,025
Sidney Health Center	August 1999	11,500	11,255
St. Patrick Hospital (GE PP)	December 1999	1,714	1,599
MLP OO - Marcus Daly	March 2000	3,444	3,350
Hillcrest Senior Living	March 2000	17,170	17,170
BSW, Inc. (99)	July 1999	71	45
Powell County Hospital	January 2000	86	65
Mineral Community Health Center	April 2000	24	19
Opportunity Resources	May 2000	493	482
Boyd Andrew (Prerelease)	July 2000	2,245	2,245
Kalispell Regional Med. Ctr.	March 2000	20,550	20,550
Community Medical 01	May 2001	1,092	1,092
Community Medical 01	May 2001	118	118
St. Luke Hospital	February 2001	534	530
<b>Total</b>		<b>\$690,769</b>	<b>\$555,741</b>

(1) The Board of Investments (BOI) and the MHFA have entered into a capital reserve account agreement for certain bond issues. In accordance with the agreement, the BOI irrevocably committed to lend the MHFA funds sufficient to ensure timely payments of principal and interest on the bonds. If necessary, the loans will be made by the BOI from the Coal Severance Tax Permanent Trust Fund, a Trust Fund Bond Pool participant, or any other legally available funds administered by the BOI.

### 13. INTERFUND TRANSACTIONS

During the course of normal operations, the State has numerous transactions between funds to finance operations, provide services, construct assets, service debt, etc. Montana statutes include a provision for interfund loans when the expenditure of an appropriation is necessary and the cash balance in the account from which the appropriation was made is insufficient to pay the expenditure. To the extent that certain transactions between funds are not paid or received as of June 30, 2001, interfund receivables/payables (Due From/To Other Funds) are recorded. The schedule below presents all interfund balances outstanding at June 30, 2001, (in thousands) and interfund activity for the fiscal year then ended:

Within Primary Government and Component Units	Interfund Loans/Advances		Due From Other Funds	Due To Other Funds	Operating Transfers		Residual Equity Transfers	
	Receivable	Payable			In	Out	In	Out
<b>General</b>	\$55,903	\$ -	\$ 43,436	\$ 12,729	\$133,757	\$ 22,412	\$1,065	\$ -
<b>Special Revenue</b>								
State	24,925	12,460	6,838	19,135	44,584	32,354	-	8,213
Federal	505	68,841	3,546	10,604	2,175	45,607	-	-
<b>Debt Service</b>								
Coal Tax Bonds	1,862	-	-	8	1,294	602	-	-
Long-Range Building Program	-	-	-	-	13,976	86	-	-
Water Development	-	-	-	-	4,162	2,044	-	-
Highway Revenue Bonds	-	-	-	-	13,584	-	-	-
Health Care Debt Service	-	-	-	-	2,709	-	-	-
Information Technology Bonds	-	-	-	-	7,921	-	-	-
<b>Capital Projects</b>								
Long-Range Building Program	-	-	540	19	6,991	4,208	-	-
Federal/Private Construction Grts	-	-	-	-	53	-	-	-
Capital Land Grant	-	-	4	28	2,527	500	-	-
Information Technology Project	-	-	-	36	-	1,357	-	-
<b>Enterprise</b>								
Economic Development Bonds	-	-	-	12	-	-	-	-
Liquor Warehouse	75	-	1	5,986	-	19,827	-	-
Hail Insurance	-	-	-	48	-	6	-	-
State Lottery	-	-	2	1,985	-	6,145	-	-
Prison Ranch	128	-	23	46	-	-	-	-
Prison Industries	-	130	113	62	-	-	-	-
Subsequent Injury	-	-	-	31	-	31	-	-
Montana Career Info. Systems	-	-	-	7	-	-	-	-
Sec. of State Business Services	189	-	1	75	-	-	-	-
Historical Soc. Publications	-	-	4	39	54	-	-	-
Surplus Property	-	-	21	48	-	-	-	-
West Yellowstone Airport	-	-	-	4	21	-	-	-
Local Govt. Audits	-	-	-	12	-	-	-	-
Flexible Spending Administration	-	201	164	-	-	-	-	-
Swan River Vocational Training	-	-	-	-	-	-	-	2
Judiciary Law Library	-	-	4	-	-	-	-	-
<b>Internal Service</b>								
Highway Equipment	-	-	18	217	-	-	7,150*	-
Employee Group Benefits	-	-	2,111	67	-	-	-	-
ISD	3	-	2,337	378	-	338	-	-
MUS Group Insurance	-	-	17	8	-	-	-	-
Administration Insurance	-	-	2	124	20	332	-	-
FWP Equipment	-	300	120	4	223	-	-	-
Motor Pool	-	816	496	57	-	-	-	-
Administration Supply	-	-	391	18	-	-	-	-
Publications & Graphics	-	-	370	56	-	-	-	-
Buildings & Grounds	-	-	58	81	-	2	-	-
Labor Central Services	-	-	210	219	-	-	-	-
Commerce Central Services	-	-	141	128	-	-	-	-
DEQ Indirect Cost Pool	-	-	268	88	-	-	-	-
Mail & Messenger	-	-	274	20	-	-	-	-
Payroll Processing	-	-	-	19	-	-	-	-
Warrant Processing	-	7	55	73	-	-	-	-
Investment Division	-	-	37	137	-	-	-	-
Aircraft Operation	-	-	37	18	355	-	-	-
Justice Legal	-	100	96	38	-	-	-	-
OPI Central Services	-	-	325	93	-	-	-	-
Personnel Training	-	-	73	11	-	-	-	-
Records Management	-	190	21	21	-	-	-	-
FWP Office Supply	-	-	4	4	-	-	-	-
Debt Collection/CSC	-	-	349	389	2,812	344	-	-
Administration Legal	-	-	-	4	-	-	-	-
Local Govt. Administration	-	-	6	6	-	-	-	-
State Wide Fueling Network	-	-	-	1	-	-	-	-
Administration DP Unit	-	-	-	4	-	-	-	-

Within Primary Government and Component Units	Interfund Loans/Advances		Due From Other Funds	Due To Other Funds	Operating Transfers		Residual Equity Transfers	
	Receivable	Payable			In	Out	In	Out
Procurement Card Purchases	-	-	1	-	-	-	-	-
<b>Expendable Trusts</b>								
Unemployment Insurance	-	500	-	328	-	-	-	-
Rural Development	-	-	-	4	-	-	-	-
Escheated Property	-	-	-	210	-	544	-	-
Wildlife Mitigation	-	-	-	10	-	76	-	-
Tobacco Settlement	-	-	-	-	71	-	-	-
<b>Nonexpendable Trusts</b>								
Coal Tax Trust	-	-	308	6,089	300	39,291	-	-
Land Grants	-	-	1,111	7,963	216	54,503	-	-
Resource Indemnity	-	-	-	1,278	-	5,817	-	-
Parks Trust	-	-	-	92	-	984	-	-
Cultural Trust	-	-	-	27	-	310	-	-
Real Property	-	-	25	60	-	546	-	-
Noxious Weed Management	-	-	129	721	1,125	611	-	-
Thomas Teakle Trust	-	-	-	-	-	1	-	-
Historical Society Acquisitions	-	-	-	1	-	-	-	-
Tobacco Settlement Interest	-	-	-	-	99	170	-	-
<b>Agency</b>								
Investment Pool	-	-	-	55	-	-	-	-
Performance Deposits	460	-	27	1,023	-	-	-	-
Central Payroll	-	-	-	622	-	-	-	-
Custodial Accounts	-	-	9	164	-	-	-	-
Child Support Collections	-	-	157	-	-	-	-	-
Uncleared Collections	16	-	19,391	12,184	-	-	-	-
Debt Collection/CSC	-	-	2	196	-	-	-	-
<b>Component Units</b>								
<b>Enterprise Funds</b>								
Housing Authority	-	-	-	2	-	-	-	-
Health Facilities Authority	-	-	-	1	-	-	-	-
State Comp. Insurance - New	-	-	1,419	3	6,765	-	-	-
State Comp. Insurance - Old	-	-	1	842	-	6,765	-	-
<b>Expendable Trust Fund</b>								
Employees Deferred Comp.	-	525	40	6	-	-	-	-
<b>Pension Trusts</b>								
Teachers Retirement	-	-	382	1	-	-	-	-
PERS	-	-	680	6	-	-	-	-
Municipal Police	-	-	-	55	-	-	-	-
Firefighters Unified	-	-	-	44	-	-	-	-
Sheriffs	-	-	1	43	-	-	-	-
Highway Patrol	-	-	1	22	-	-	-	-
Judges	-	-	-	5	-	-	-	-
Game Wardens	-	-	5	30	-	-	-	-
Volunteer Firefighters	-	-	-	42	-	-	-	-
<b>Higher Education</b>								
<b>Current Funds</b>								
General Operating	200	505	999	7,674	294	1,895	-	-
Designated	14,637	67	2,681	2,724	3,037	5,473	4	-
Auxiliary	5	67	144	1,541	1,418	13,138	-	-
Restricted	-	14,267	652	7,242	196	447	-	4
<b>Fiduciary</b>								
Student Loans	-	-	104	58	-	8	-	-
Endowments	-	-	-	33	72	3	-	-
Agency	-	-	15,133	1,945	-	-	-	-
<b>Plant</b>								
Unexpended	90	-	371	447	10,821	13,594	-	-
Renewal & Replacement	26	-	851	226	9,163	1,328	-	2
Retirement of Indebtedness	-	-	115	36	15,632	4,728	2	-
Investment in Plant	-	48	-	-	-	-	-	-
<b>Total</b>	<b>\$99,024</b>	<b>\$99,024</b>	<b>\$107,252</b>	<b>\$107,252</b>	<b>\$286,427</b>	<b>\$286,427</b>	<b>\$8,221</b>	<b>\$8,221</b>

\* These Residual Equity Transfers are reflected in Contributed Capital on the Balance Sheet.

Between Primary Govt. and Component Units	Due From Comp. Units	Due To Primary Govt.	Due To Comp. Units	Due From Primary Govt.	Transfer From Comp. Units	Transfer To Primary Govt.	Transfer To Comp. Units	Transfer From Primary Govt.
<b>General</b>	\$ 626	\$ -	\$11,814	\$ -	\$ -	\$ -	\$117,745	\$ -
<b><u>Special Revenue</u></b>								
State	246	-	1,580	-	115	-	17,148	-
Federal	27	-	1,414	-	-	-	-	-
<b><u>Debt Service</u></b>								
Long-Range Building	-	-	-	-	1	-	-	-
Information Technology Bonds	-	-	-	-	281	-	-	-
<b><u>Capital Projects</u></b>								
Long Range Building	2	-	27	-	-	-	-	-
<b><u>Enterprise</u></b>								
Liquor Stores	1	-	-	-	-	-	-	-
State Lottery	-	-	5	-	-	-	-	-
Prison Industries	11	-	-	-	-	-	-	-
Flex Spending Admin.	78	-	-	-	-	-	-	-
<b><u>Internal Service</u></b>								
ISD	653	-	18	-	-	-	-	-
MUS Group Insurance	809	-	9	-	-	-	-	-
Admin. Insurance	3	-	4	-	-	-	-	-
FWP Equipment	1	-	-	-	-	-	-	-
Motor Pool	1	-	-	-	-	-	-	-
Administration Supply	20	-	1	-	-	-	-	-
Publications & Graphics	16	-	-	-	-	-	-	-
Labor Central Services	6	-	2	-	-	-	-	-
Commerce Central Services	14	-	3	-	-	-	-	-
DEQ Indirect Cost Pool	3	-	1	-	-	-	-	-
Mail & Messenger	8	-	-	-	-	-	-	-
Warrant Processing	15	-	-	-	-	-	-	-
Investment Division	74	-	-	-	-	-	-	-
Justice Legal	8	-	-	-	-	-	-	-
Personnel Training	1	-	-	-	-	-	-	-
Records Management	6	-	-	-	-	-	-	-
Debt Collection/CSC	3	-	-	-	-	-	-	-
<b><u>Expendable Trusts</u></b>								
Research & Commercialization	-	-	393	-	-	-	-	-
<b><u>Nonexpendable Trusts</u></b>								
Coal Tax Trust	300	-	-	-	-	-	-	-
Land Grants	-	-	382	-	-	-	2,607	-
<b><u>Agency</u></b>								
Child Support Collections	9	-	-	-	-	-	-	-
Uncleared Collections	561	-	530	-	-	-	-	-
Debt Collection/CSC	-	-	26	-	-	-	-	-
<b><u>Component Units</u></b>								
<b><u>Enterprise Funds</u></b>								
Housing Authority	-	56	-	-	-	-	-	-
Health Facilities Authority	-	6	-	-	-	-	-	-
State Compensation Ins. – New	-	1,102	-	7	-	-	-	-
State Compensation Ins. – Old	-	4	-	-	-	-	-	-
<b><u>Expendable Trusts</u></b>								
Employees Deferred Comp.	-	4	-	455	-	-	-	-
<b><u>Pension Trusts</u></b>								
Teachers Retirement	-	60	-	128	-	-	-	-
PERS	-	108	-	59	-	-	-	-
Municipal Police	-	-	-	6,148	-	-	-	-
Firefighters Unified	-	-	-	5,369	-	-	-	-
Highway Patrol	-	-	-	87	-	-	-	-
<b><u>Higher Education</u></b>								
<b><u>Current Funds</u></b>								
General Operating	-	29	-	433	-	-	-	129,615
Designated	-	902	-	663	-	-	-	3,004
Auxiliary	-	13	-	53	-	-	-	271
Restricted	-	14	-	1,874	-	-	-	1,680



Between Primary Govt. and Component Units	Due From Comp. Units	Due To Primary Govt.	Due To Comp. Units	Due From Primary Govt.	Transfer From Comp. Units	Transfer To Primary Govt.	Transfer To Comp. Units	Transfer From Primary Govt.
<b><u>Fiduciary</u></b>								
Student Loans	-	3	-	1	-	-	-	-
Agency	-	1,083	-	773	-	-	-	-
<b><u>Plant</u></b>								
Unexpended	-	115	-	146	-	294	-	1,175
Renewal and Replacement	-	3	-	13	-	-	-	566
Retirement of Debt	-	-	-	-	-	103	-	1,189
<b>Total</b>	<b>\$3,502</b>	<b>\$3,502</b>	<b>\$16,209</b>	<b>\$16,209</b>	<b>\$397</b>	<b>\$397</b>	<b>\$137,500</b>	<b>\$137,500</b>

#### 14. FUND DEFICITS

The following funds have a deficit fund balance/retained earnings found on the operating statements for June 30, 2001, (in thousands):

##### Primary Government

###### Enterprise Fund

	Deficit
West Yellowstone Airport	\$ (540)
Department of Agriculture	(178)
Subsequent Injury	(614)
Liquor Stores	(212)
Judiciary Law Library	(7)

###### Internal Service Fund

Records Management	(63)
Payroll Processing	(85)
Warrant Processing	(36)
Investment Division	(66)
Administration Insurance	(24,551)
Justice - Legal	(26)
Administration - Legal	(30)
Local Government Admin	(43)
Total Fund Deficits - Primary Government	<u>\$ (26,451) -</u>

##### Component Units

###### Proprietary Fund Type

State Comp. Ins. (Old Fund)	<u>\$ (131,686)</u>
-----------------------------	---------------------

###### Higher Education Funds

General Operating Subfund - Unreserved	<u>\$ (26,942)</u>
Total Fund Deficits - Component Units	<u>\$ (158,628)</u>

The retained earnings deficit in the Administration Insurance Fund, Subsequent Injury and the State Compensation Insurance-Old Fund are due to recording the expense for estimated claims including claims incurred but not reported. Refer to Note 9 for further discussion of these funds. The deficit fund balance in the General Operating Subfund is due to the expense associated with the recording of compensated absences.

#### 15. RESERVED FUND BALANCES FOR TRUSTS

The Special Revenue fund balance reserved for trusts is for the Department of Environmental Quality federal Office of Surface Mining Trust Fund of \$6,551,852.

The Nonexpendable Coal Tax Trust Fund reserved for trust principal is comprised of the following: Permanent Coal Tax Trust \$567,943,708; Treasure State Endowment Fund \$91,496,098; and the School Bond Contingency Loan Fund \$2,177,964. All other nonexpendable funds reserved for trust principal total \$563,675,511.



## 16. SEGMENT INFORMATION

Selected financial information concerning all enterprise operations for the fiscal year ended June 30, 2001, is as follows (in thousands):

	Economic Development Bonds	Liquor Warehouse	Hail Insurance	State Lottery	Other* Enterprise	Total Enterprise
<b>Operating Revenues:</b>						
Charges for Services	\$ 11	\$ 40,798	\$ -	\$ 30,422	\$ 9,211	\$ 80,442
Investment Earnings	1,120	-	376	275	228	1,999
Financing Income	3,683	-	-	-	-	3,683
Contributions/Premiums	-	-	2,760	-	6,318	9,078
Grants/Contracts/Donations	-	3	-	-	-	3
Taxes	-	12,151	-	-	-	12,151
Other Revenues	-	80	25	1	170	276
<b>Operating Expenses:</b>						
Depreciation	1	76	-	620	242	939
Amortization	-	1	-	164	333	498
Other	4,340	35,195	3,190	23,766	16,047	82,538
Operating Income (Loss)	473	17,760	(29)	6,148	(695)	23,657
Nonoperating Rev. (Exp.)	-	(2)	-	(3)	461	456
Oper. Trans. In (Out)	-	(19,827)	(6)	(6,145)	44	(25,934)
Net Income (Loss)	\$ 473	\$ (2,069)	\$ (35)	\$ -	\$ (188)	\$ (1,821)
Current Assets	\$13,796	\$ 11,145	\$ 8,035	\$ 3,280	\$12,002	\$ 48,258
Current Liabilities	(1,370)	(10,299)	(1,058)	(6,007)	(1,050)	(19,784)
Net Working Capital	\$12,426	\$ 846	\$ 6,977	\$ (2,727)	\$10,952	\$ 28,474
Total Assets	\$77,973	\$ 12,097	\$ 8,035	\$ 9,585	\$18,512	\$126,202
Total Liabilities	73,460	10,394	1,598	9,347	4,710	99,509
Fund Equity	\$ 4,513	\$ 1,703	\$ 6,437	\$ 238	\$13,802	\$ 26,693
Long-Term Obligations	\$72,090	\$ 95	\$ 540	\$ 3,340	\$ 3,660	\$ 79,725
Current Capital Contribution	\$ -	\$ 158	\$ -	\$ -	\$ 30	\$ 188
Acquisition of Fixed Assets	\$ -	\$ 99	\$ -	\$ 630	\$ 1,327	\$ 2,056
Disposal of Fixed Assets	\$ -	\$ 8	\$ -	\$ 108	\$ 434	\$ 550

1. The Economic Development Bond Program, administered by the Board of Investments, assists Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions.
  2. The Liquor Division of the Department of Revenue administers the State liquor operations (Liquor Warehouse). This fund accounts for liquor licensing activities and the sale and distribution of alcoholic beverages.
  3. The Hail Insurance Fund provides benefit payments to producers for crop acreage insured and accounts for premium assessments paid (See Note 9).
  4. The State Lottery accounts for the operations of Montana's lottery which began in June 1987. Included in Other Assets, as presented on the Balance Sheet, is \$2,265,495 which is not a current asset.
- \* Other Enterprise is composed of the following funds (listed by administering agency):

**Department of Agriculture**  
Department of Agriculture

**Secretary of State**  
Business Services

**Department of Corrections**  
Prison Ranch Industries  
Womens Prison Industries  
Swan River Vocational Training

**Department of Commerce**  
Local Government Audits

**Montana Historical Society**  
Historical Society Publications

**Judiciary**  
Judiciary Law Library

**Department of Transportation**  
West Yellowstone Airport

**Commissioner of Higher  
Education**  
Flexible Spending

Department of Labor  
and Industry

Montana Career Info. System  
Subsequent Injury  
Uninsured Employers

Department of Administration

Surplus Property  
Flexible Spending  
Deferred Compensation Admin.

**17. CONTRIBUTED CAPITAL**

During fiscal year 2001, contributed capital changed by the following amounts (in thousands):

	<u>Primary Government</u>		<u>Component Units</u>
	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>	<u>Proprietary Fund Type</u>
Beginning Balance - July 1, 2000	\$4,928	\$12,245	\$154,468
Additions:			
Contributed Capital Transfers-in	7,619	7,291	-
Deletions:			
Contributed Capital Transfers-out	(7,432)	(142)	-
Ending Balance - June 30, 2001	\$5,115	\$19,394	\$154,468

**18. RELATED PARTY TRANSACTIONS**

The Montana Board of Regents, an agency within the State, is the guarantor of the loans owned by the Montana Higher Education Student Assistance Corporation (MHESAC), a private non-profit corporation. The Board of Regents and MHESAC have four common board members. Approximately 53.38% of the Regents' outstanding loan volume, or \$374,141,519 is held by MHESAC. During fiscal year 2000 MHESAC undertook a reorganization under which its operating staff and assets were transferred to the Student Assistance Foundation of Montana (SAF) and MHESAC entered into agreements with SAF to provide management and loan servicing to MHESAC. The Board of Regents and SAF have four common board members. Lewis & Clark County owns the building that houses the staff of the Board of Regents and the Office of the Commissioner of Higher Education (OCHE). Upon satisfaction of the financing obligations, SAF has the option to purchase the building. OCHE paid SAF during fiscal year 2001 for its share of various costs such as personnel costs for employees of SAF who performed services that were of direct benefit to the State; equipment leases, computer maintenance costs, utilities, and other shared operating expenses. The total amount of these expenses for fiscal year 2001 amounted to \$449,486. SAF employees are allowed to participate in the University System group insurance plan and SAF also pays OCHE reimbursement for services such as telephones, postage, and computer services. During fiscal year 2001, SAF paid OCHE a total of \$470,938.

There is a foundation affiliated with each university and college unit that solicits contributions and manages those funds for the benefit of that unit. Although each foundation is a separate legal entity, each unit exercises significant influence over its affiliated foundation. The units generally provide the foundations with office space, some staff and related office expenses and an annually contracted fee. The units paid their foundations approximately \$1,393,454 in fiscal year 2001. In return the universities received from their foundations approximately \$14,190,070 during fiscal year 2001 for scholarships and academic/institutional support. In addition to support from their affiliated foundations, the University of Montana-Missoula, University of Montana-Dillon, Montana State University-Billings and Montana State University-Bozeman received a total of \$3,459,801 from their related athletic associations/booster organizations and affiliated museums and public broadcasting radio stations.

The Department of Administration, Personnel Division, has a staff member that serves as Director of the Montana Association of Health Care Purchasers for no remuneration. The Department pays this Association \$1,000 per year to maintain its membership. This staff member also serves as Director of Community Health Options which is a health purchasing cooperative whose purpose is to consolidate demand for health coverage to encourage more cost-effective health plans, negotiate more favorable rates and create economies of scale by combining administration of health care plans.

**19. CONTINGENCIES**

A. Litigation - The State is party to legal proceedings, which normally occur in government operations. The legal proceedings are not, in the opinion of the State's legal counsel and the Department of Administration, likely to have a material adverse impact on the State's financial position, except where listed below.

The State of Montana is involved in a lawsuit with the potential for substantial recovery of monetary relief against private parties. State of Montana v. Atlantic Richfield Co., No CV-83-317-H-PHG(D.Mont.), is a case where natural resource damage claims have been asserted under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 with respect to environmental injury to Clark Fork River Basin. The State and Atlantic Richfield settled a portion of the case for \$215 million, but unresolved is a claim by the State for \$180 million. Atlantic Richfield filed a counterclaim against the State, the amount of which is unspecified and therefore could reduce or exceed the State's remaining claim. The State believes it has meritorious defenses to the counterclaim. Any recovery in this litigation must be used under federal law to further reclamation and recovery efforts or to offset attorney fees and assessment costs incurred by the State.

In United States ex rel. Matthew J. Sisler vs. State of Montana et al., filed in the United States District Court, State of Montana, Missoula Division, Cause No. CV 99-125-M-DWM, plaintiffs allege that Department of Public Health and Human Services and its agent Healthy Mothers, Healthy Babies, a nonprofit corporation, fraudulently submitted monies to the federal government which were claimed as donations and as such eligible for federal matching funds. The complaint alleges that approximately \$1 million was paid to the State of Montana during the time period at issue. It is further alleged that the federal government is entitled to treble damages plus civil penalties of \$5,000 to \$10,000 for each violation. The State believes the amount of loss in monetary terms may be closer to \$300,000 rather than the higher claim asserted in the complaint.

In Travis D. et al. v. Eastmont Human Services Center, et al., filed in the United States District Court, District of Montana, Helena Division, Civil Action No. CV 96-63-H-CCL, plaintiffs allege that the State of Montana, in its operation of the Eastmont Human Services Center and the Montana Development Center, is not placing residents in the "least restrictive environment." In addition, plaintiffs' second amended complaint, dated November 2, 2001, expanded their claims to demand services for those Medicaid eligible recipients who are "at risk" of being institutionalized or on a "waiting list" for services but cannot be served due to limited funding provided by the Montana legislature for the "home and community services program" for the developmentally disabled. Their claims are based upon alleged violations of the Americans with Disabilities Act, Title XIX of the Social Security Act (Medicaid) and a constitutional equal protection and due process. The case is currently awaiting the filing of summary judgment motions and briefs by the parties, which will be completed by January 18, 2002. The judge will make a ruling on those motions for summary judgment submitted by each party. The ruling, however, may not completely decide the case. In that event it will be set for trial at a later date. The State estimates the annual loss in monetary terms (based upon the amended complaint) at \$65 million, of which \$33.215 million would be Federal funds and \$31.785 million would be General Funds.

#### **B. Federal Contingencies:**

**Federal Financial Assistance** - The State receives federal financial assistance for specified purposes which are subject to review and audit in accordance with the Single Audit Act Amendments of 1996. Any disallowances resulting from these audits would become the liability of the State. There are no disallowances reported as of June 30, 2001.

**USDA Commodities** - In fiscal year 2001, the State distributed \$6,454,990 in commodities. The value of the commodities stored in the State's warehouses was \$2,191,527 at June 30, 2001, for which the State is liable in the event of loss.

#### **C. Miscellaneous Contingencies:**

**Commitment Fees** - The Board of Investments (BOI) and the Montana Health Facility Authority (MHFA) have entered into a capital reserve account agreement for certain bond issues. In accordance with the agreement, the BOI irrevocably committed to lend the MHFA funds sufficient to ensure timely payments of principal and interest on the bonds. If necessary, the loans will be made by the BOI from the Coal Severance Tax Permanent Trust Fund. The total amount of these bonds outstanding as of June 30, 2001 was \$33,158,151.

The BOI has issued INTERCAP bonds backed by commitments from the Coal Severance Tax Permanent Trust Fund. The total amount of these bonds outstanding as of June 30, 2001 was \$57,680,000.

**Gain Contingencies** - Certain natural resource and corporation tax assessments are not reported on the State's financial statements because they are being protested administratively. As of June 30, 2001, the following assessments (by fund type) were outstanding (in thousands):

Taxes	General	Special Revenue	Debt Service	Nonexpendable Trust
Corporation	\$3,903	\$ -	\$-	\$ -
Coal Severance	-	-	-	-
Metal Mines	-	-	-	-
Oil & Gas	1,135	68	-	-
Resource Indemnity	-	61	-	52
Total	\$5,038	\$129	\$-	\$52

Collectibility of these contingencies is dependent upon the decisions of the court, other authorities, or agreed upon settlements. Interest related to Corporation Tax Assessments is distributed to the General Fund.

**Loss Contingencies** - Certain corporations have requested refunds that are not reported on the State's financial statements as of June 30, 2001. As of June 30, 2001, \$5,248,987 of General Fund corporation tax refunds; \$76,255 of General Fund metal mines tax refunds; and \$55,219 of special revenue metal mines tax refunds were outstanding.

## **20. SUBSEQUENT EVENTS**

On July 27, 2001, the Department of Natural Resources and Conservation issued \$12,155,000 of Renewable Resource Refunding Bonds, Series C. Proceeds were received on or about August 9, 2001. The Department of Health and Human Services overdrew its Child Support Enforcement federal grant by \$1,780,051 for fiscal years 2000 and 2001. Future grant draws for the next four quarters will be adjusted for this amount.

On July 1, 2001, the Housing Authority Board issued \$71,000,000 of Series 2001A Bonds to refund certain of the Board's single family mortgage revenue bonds.

# LEGISLATIVE AUDIT DIVISION



Scott A. Seacat, Legislative Auditor  
John W. Northey, Legal Counsel

Deputy Legislative Auditors:  
Jim Pellegrini, Performance Audit  
Tori Hunthausen, IS Audit & Operations  
James Gillett, Financial-Compliance Audit

## INDEPENDENT AUDITOR'S REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

To the Legislative Audit Committee  
of the Montana State Legislature:

We have audited the general purpose financial statements of the state of Montana for the fiscal year ended June 30, 2001, and have issued our report thereon dated January 4, 2002. Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general purpose financial statements. Such information has been subjected to the audit procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

This report is intended for the information of the Legislative Audit Committee, state of Montana management, the Montana State Legislature, federal awarding agencies, and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "James Gillett".

James Gillett, CPA  
Deputy Legislative Auditor

January 4, 2002



State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2001

AMOUNT

**PEACE CORPS**

08.999	Miscellaneous Non-Major Grants	11,392
<b>TOTAL</b>		<b>\$11,392</b>

**DEPARTMENT OF AGRICULTURE**

10.025	Plant and Animal Disease, Pest Control, and Animal Care	620,195
10.156	Federal-State Marketing Improvement Program	37,531
10.162	Inspection Grading and Standardization	43,372
10.203	Payments to Agricultural Experiment Stations Under the Hatch Act	2,002,436
10.206	Grants for Agricultural Research-Competitive Research Grants	86,887
10.210	Food and Agriculture Sciences National Needs	49,997
10.302	Initiative for Future Agriculture and Food Systems: From Univ. of Wyoming	54,436
10.452	Disaster Reserve Assistance	240,000
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	438,489
10.500	Cooperative Extension Service	3,211,779
10.500	Cooperative Extension Service: From Salish Kootenai College	1,737
10.500	Cooperative Extension Service: From Stone Child College	1,546
10.500	Cooperative Extension Service: From Utah State University	4,391
10.500	Cooperative Extension Service: From Fort Belknap College	481
10.500	Cooperative Extension Service: From Dull Knife Mem. College	1,526
10.500	Cooperative Extension Service: From Other	1,546
10.550	Food Distribution	2,303,866
10.557	Special Supplemental Nutrition Program for Women, Infants, & Children	13,017,102
10.558	Child and Adult Care Food Program	8,999,894
10.560	State Administrative Expenses for Child Nutrition	514,572
10.565	Commodity Supplemental Food Program	551,542
10.567	Food Distribution Program on Indian Reservations	3,881,738
10.570	Nutrition Program for the Elderly (Commodities)	938,886
10.572	WIC Farmers' Market Nutrition Program (FMNP)	13,650

FY00 Financial Section

Auditor's Report & Findings

Corrective Action Plan

Summary Schedule of Prior  
Audit Findings

State of Montana  
**Schedule of Expenditures of Federal Awards**  
 For the Fiscal Year Ending June 30, 2001

		AMOUNT
10.574	Team Nutrition Grants	91,282
10.601	Market Access Program: From WUSATA & USLGE	45,523
10.652	Forestry Research	41,991
10.664	Cooperative Forestry Assistance	5,913,640
10.664	Cooperative Forestry Assistance: From National Fish & Wildlife	15,000
10.761	Technical Assistance and Training Grants	22,944
10.769	Rural Development Grants	6,902
10.771	Rural Cooperative Development Grants	138,449
10.901	Resource Conservation and Development	69,563
10.906	Watershed Surveys and Planning	7,139
10.961	International Agricultural Research Program	1,369
10.999	Miscellaneous Non-Major Grants	64,108
10.999	Miscellaneous Non-Major Grants: From Dull Knife Mem. College	11,112
	<b>TOTAL</b>	<b>\$43,446,621</b>
<b>CHILD NUTRITION CLUSTER</b>		
10.553	School Breakfast Program	2,978,984
10.555	National School Lunch Program	14,202,093
10.556	Special Milk Program for Children	38,950
10.559	Summer Food Service Program for Children	593,658
	<b>TOTAL</b>	<b>\$17,813,685</b>
<b>EMERGENCY FOOD ASSIST. CLUSTER</b>		
10.568	Emergency Food Assistance Program (Administrative Costs)	170,081
10.569	Emergency Food Assistance Program (Food Commodities)	714,083
	<b>TOTAL</b>	<b>\$884,164</b>
<b>FOOD STAMP CLUSTER</b>		
10.551	Food Stamps	54,038,254
10.561	State Administrative Matching Grants for Food Stamp Program	6,599,892
	<b>TOTAL</b>	<b>\$60,638,146</b>
<b>SCHOOLS AND ROADS CLUSTER</b>		
10.665	Schools and Roads: Grants to States	7,193,280



State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2001

		AMOUNT
<b>TOTAL</b>		<b>\$7,193,280</b>
<b>DEPARTMENT OF COMMERCE</b>		
11.302	Economic Development_Support for Planning Organizations: From Beartooth Resources Cons.	1,031
11.550	Public Telecommunication Facilities-Planning and Construction	41,968
11.552	Telecommunications and Information Infrastructure Assistance Program	86,803
11.609	Measurement and Engineering Research and Standards	1,484,607
11.611	Manufacturing Extension Partnership	136,279
<b>TOTAL</b>		<b>\$1,750,688</b>
<b>PUBLIC WORKS AND E.D. CLUSTER</b>		
11.307	Special Economic Development and Adjustment Assistance Program	103,477
<b>TOTAL</b>		<b>\$103,477</b>
<b>DEPARTMENT OF DEFENSE</b>		
12.106	Flood Control Projects	22,488
12.110	Planning Assistance to States	191,049
12.110	Planning Assistance to States: From Washington Power Adm.	17,830
12.114	Collaborative Research and Development	20,307
12.400	Military Construction National Guard	1,614,245
12.401	National Guard Military Operations and Maintenance Projects	8,638,043
12.404	National Guard Civilian Youth Opportunities	1,762,404
12.630	Basic, Applied, and Advanced Research in Science and Engineering	(1,583)
12.900	Language Grant Program	122,513
12.999	West Point Academy	215,375
<b>TOTAL</b>		<b>\$12,602,671</b>
<b>DEPARTMENT OF HOUSING &amp; URBAN DEVELOPMENT</b>		
14.228	Community Development Block Grant/States Program	7,096,537
14.231	Emergency Shelter Grants Program	388,692
14.239	Home Investment Partnerships Program	3,704,876

FY00 Financial Section

Auditor's Report & Findings

Corrective Action Plan

Summary Schedule of Prior Audit Findings

State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2001

		AMOUNT
14.246	Community Development Block Grants/Economic Development Initiative	282,962
14.401	Fair Housing Assistance Program-State and Local	11,463
14.999	Miscellaneous Non-Major Grants	229,054
	<b>TOTAL</b>	<b>\$11,713,584</b>
<b>SECTION 8 CLUSTER</b>		
14.871	Section 8 Housing Choice Vouchers	11,943,672
	<b>TOTAL</b>	<b>\$11,943,672</b>
<b>SECTION 8 PROJECT-BASED CLUSTER</b>		
14.195	Section 8 Housing Assistance Payments Program Special Allocations	5,040,106
14.856	Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation	2,279,977
	<b>TOTAL</b>	<b>\$7,320,083</b>

**DEPARTMENT OF THE INTERIOR**

15.114	Indian Education: Higher Education Grant Program	27,093
15.130	Indian Education: Assistance to Schools	22,804
15.199	Tongue River Rehabilitation Grant	(47,125)
15.199	Tongue River Rehabilitation Grant: From MT/WY Court Judges	4,749
15.222	Cooperative Inspection Agreements with States and Tribes	2,952
15.224	Cultural Resource Management	2,877
15.225	Recreation Resource Management	204,871
15.250	Regulation Surface Coal Mining and Surface Effects of Underground Coal Mining	859,962
15.252	Abandoned Mine Land Reclamation (AMLR) Program	1,296,588
15.299	Miscellaneous Non-Major Grants	226,320
15.504	Reclamation and Water Reuse Program	160,383
15.608	Fish and Wildlife Management Assistance	329,321
15.608	Fish and Wildlife Management Assistance: From C.M. Russell Nat'l Wildl	1,250
15.608	Fish and Wildlife Management Assistance: From Nat'l Fish & Wild. Found.	13,843
15.612	Endangered Species Section 6	5,033,470
15.615	Cooperative Endangered Species Conservation Fund	497,772
15.617	Wildlife Conservation and Appreciation	316

State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2001

AMOUNT

15.625	Wildlife Conservation and Restoration	1,982
15.805	Assistance to State Water Resources Research Institutes	119,441
15.806	Water Education Program	150,489
15.808	U.S. Geological Survey-Research and Data Acquisition	15,985
15.809	National Spatial Data Infrastructure Competitive Cooperative Agreements Program	12,425
15.904	Historic Preservation Fund Grants-in-Aid	1,007,939
15.910	National Natural Landmarks Program	2,779
15.912	National Historic Landmark	1,613
15.915	Technical Preservation Services	9,604
15.916	Outdoor Recreation: Acquisition, Development and Planning	20,732
15.921	Rivers, Trails and Conservation Assistance	878
15.923	National Center for Preservation Technology and Training	35,283
15.999	Miscellaneous Non-Major Grants	622,278
15.R&D	Miscellaneous Research and Development	9,340

**TOTAL** \$10,648,214

**FISH AND WILDLIFE CLUSTER**

15.605	Sport Fish Restoration	6,219,115
15.611	Wildlife Restoration	4,735,423

**TOTAL** \$10,954,538

**DEPARTMENT OF JUSTICE**

16.001	Law Enforcement Assistance: Narcotics and Dangerous Drugs-Laboratory Analysis	31,473
16.007	State Domestic Preparedness Equipment Support Program	298,706
16.523	Juvenile Accountability Incentive Block Grants	1,930,162
16.523	Juvenile Accountability Incentive Block Grants: From MBCC	235,242
16.540	Juvenile Justice and Delinquency Prevention: Allocation to States	1,404,459
16.547	Victims of Child Abuse	54,318
16.548	Title V Delinquency Prevention	117,000
16.549	Part E State Challenge Activities	87,500
16.550	State Justice Statistics Program For Statistical Analysis Centers	53,055

FY00 Financial Section

Auditor's Report & Findings

Corrective Action Plan

Summary Schedule of Prior  
Audit Findings

State of Montana  
**Schedule of Expenditures of Federal Awards**  
 For the Fiscal Year Ending June 30, 2001

		AMOUNT
16.554	National Criminal History Improvement Program (NCHIP)	629,013
16.575	Crime Victim Assistance	1,603,882
16.576	Crime Victim Compensation	152,000
16.579	Byrne Formula Grant Program	2,498,795
16.586	Violent Offender Incarceration and Truth in Sentencing Incentive Grants	2,366,488
16.588	Violence Against Women Formula Grants	821,911
16.592	Local Law Enforcement Block Grants Program	162,165
16.593	Residential Substance Abuse Treatment for State Prisoners	422,288
16.606	State Criminal Alien Assistance Program	25,875
16.609	Planning, Implementing, and Enhancing Strategies in Community Prosecution	13,595
16.710	Public Safety Partnership and Community Policing Grants	277,706
16.711	Troops to COPS	(45)
16.727	Combating Underage Drinking	879,409
16.729	Drug-Free Communities Support Program Grants: From HELP	197
16.999	Miscellaneous Non-Major Grants	21,057
<b>TOTAL</b>		<b>\$14,086,251</b>

**DEPARTMENT OF LABOR**

17.002	Labor Force Statistics	672,263
17.005	Compensation and Working Conditions Data	58,939
17.201	Registered Apprenticeship and Other Training	40,000
17.203	Labor Certification for Alien Workers	89,929
17.225	Unemployment Insurance	76,182,284
17.245	Trade Adjustment Assistance-Workers	1,277,996
17.248	Employment and Training Research and Development Projects	(2,000)
17.249	Employment Services and Job Training: Pilot and Demonstration Programs	2,624,071
17.249	Employment Services and Job Training: Pilot and Demonstration Programs: From Oak Ridge Inst. of Sci.	75,794
17.249	Employment Services and Job Training: Pilot and Demonstration Programs: From MT Job Training Partners	26,422
17.251	Native American Employment and Training Programs	158,956

State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2001

AMOUNT

17.253	Welfare-to-Work Grants to States and Localities	219,567
17.257	One-Stop Career Center Initiative	994,547
17.258	WIA Adult Program	3,633,438
17.259	WIA Youth Activities	3,081,389
17.260	WIA Dislocated Workers	7,275,193
17.504	Consultation Agreements	252,190
17.600	Mine Health and Safety Grants	122,250
17.805	Homeless Veterans Reintegration Project	90,307

**TOTAL** \$96,873,535

**EMPLOYMENT SERVICES CLUSTER**

17.207	Employment Service	5,927,499
17.207	Employment Service: From State of Nevada	1,500
17.207	Employment Service: From SC Employ SEC Comm	11,176
17.801	Disabled Veterans Outreach Program (DVOP)	250,122
17.804	Local Veterans' Employment Representative Program	590,331

**TOTAL** \$6,780,628

**JTPA CLUSTER**

17.246	Employment and Training Assistance-Dislocated Workers	448,616
17.250	Job Training Partnership Act	503,730

**TOTAL** \$952,346

**DEPARTMENT OF STATE**

19.401	Educational Exchange - Fulbright/Hayes	693
19.404	Professional Development_International Educators/Administrators	575
19.405	College and University Partnerships Program	49,206
19.408	Educational Exchange - Teachers from Secondary and Postsecondary Levels	225,968
19.999	Miscellaneous Grants	130,307

**TOTAL** \$406,749

**DEPARTMENT OF TRANSPORTATION**

20.005	Boating Safety Financial Assistance	246,986
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FY00 Financial Section

Auditor's Report & Findings

Corrective Action Plan

Summary Schedule of Prior Audit Findings

State of Montana  
**Schedule of Expenditures of Federal Awards**  
 For the Fiscal Year Ending June 30, 2001

	AMOUNT
20.106 Airport Improvement Program	104,843
20.218 Motor Carrier Safety Assistance Program	734,605
20.219 National Recreational Trails Funding Program	745,677
20.308 Local Rail Freight Assistance	7,310
20.505 Federal Transit Technical Studies Grant	76,238
20.513 Capital Assistance Program for Elderly Persons and Persons with Disabilities	351,742
20.700 Pipeline Safety	16,854
20.703 Interagency Hazardous Materials Public Sector Training and Planning Grants	63,518
<b>TOTAL</b>	<b>\$2,347,773</b>
<b>FEDERAL TRANSIT CLUSTER</b>	
20.507 Federal Transit Capital and Operating Assistance Formula Grants	1,310,115
<b>TOTAL</b>	<b>\$1,310,115</b>
<b>HIGHWAY PLAN. &amp; CONST. CLUSTER</b>	
20.205 Highway Planning and Construction	249,783,800
<b>TOTAL</b>	<b>\$249,783,800</b>
<b>HIGHWAY SAFETY CLUSTER</b>	
20.600 State and Community Highway Safety	1,790,044
<b>TOTAL</b>	<b>\$1,790,044</b>
<b>DEPARTMENT OF TREASURY</b>	
21.999 Miscellaneous Non-Major Grants	152,127
<b>TOTAL</b>	<b>\$152,127</b>
<b>EQUAL EMPLOYMENT OPPORTUNITY COMMISSION</b>	
30.002 Employment Discrimination-State and Local Fair Employment Practices	110,984
<b>TOTAL</b>	<b>\$110,984</b>
<b>GENERAL SERVICES ADMINISTRATION</b>	
39.003 Donation of Federal Surplus Personal Property	901,739
<b>TOTAL</b>	<b>\$901,739</b>

State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2001

AMOUNT

**NATIONAL AERONAUTICS AND SPACE ADMINISTRATION**

43.001	Aerospace Education Services Program	144,489
43.001	Aerospace Education Services Program: From Univ. of Wyoming	17,419
43.001	Aerospace Education Services Program: From Thermal Biology Institute	19,573
43.002	Technology Transfer: From LB Johnson Space Center	1,189,643
43.999	Miscellaneous Non-Major Grants	40,211
43.999	Miscellaneous Non-Major Grants: From Univ. of Wyoming	1,514
<b>TOTAL</b>		<b>\$1,412,849</b>

**NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES**

45.008	Promotion of the Arts-Theater	20,000
45.024	Promotion of the Arts-Grants to Organizations and Individuals	9,244
45.025	Promotion of the Arts-Partnership Agreements	511,904
45.026	Promotion of the Arts-Leadership Initiatives	15,700
45.122	Promotion of the Arts_Leadership Initiatives	22,785
45.129	Promotion of the Humanities-Federal/State Partnership	(39)
45.129	Promotion of the Humanities-Federal/State Partnership: From MT Comm. Humanities	23,624
45.160	Promotion of the Humanities-Fellowships and Stipends	129
45.162	Promotion of the Humanities-Education Development and Demonstration	44,259
45.301	Institute of Museum and Library Services - General Operating Support	785,697
45.312	Institute of Museum and Library Services - National Leadership Grants	21,205
<b>TOTAL</b>		<b>\$1,454,508</b>

**NATIONAL SCIENCE FOUNDATION**

47.041	Engineering Grants	54,645
47.049	Mathematical and Physical Sciences	92,631
47.049	Mathematical and Physical Sciences: From Natl Council Teachers	83,017
47.049	Mathematical and Physical Sciences: From City University of NY	30,993
47.070	Computer and Information Science and Engineering	124,625

FY00 Financial Section

Auditor's Report & Findings

Corrective Action Plan

Summary Schedule of Prior Audit Findings

State of Montana  
 Schedule of Expenditures of Federal Awards  
 For the Fiscal Year Ending June 30, 2001

	AMOUNT
47.074 Biological Sciences	168,672
47.076 Education and Human Resources	184,025
47.076 Education and Human Resources: From Portland State University	2,645
<b>TOTAL</b>	<b>\$741,253</b>

**SMALL BUSINESS ADMINISTRATION**

59.000 Small Business Administration-Technical Assistance Grant	42,538
59.037 Small Business Development Center	522,923
59.037 Small Business Development Center: From George W. Haynes	217
59.046 Microloan Demonstration Program	100,801
<b>TOTAL</b>	<b>\$666,479</b>

**U.S. SMALL BUSINESS ASSOCIATION**

99.999 Small Business Development Center	145,473
<b>TOTAL</b>	<b>\$145,473</b>

**DEPARTMENT OF VETERANS AFFAIRS**

64.011 Veterans Dental Care	20,020
64.014 Veterans State Domiciliary Care	124,474
64.015 Veterans State Nursing Home Care	2,544,078
64.120 Post-Vietnam Era Veterans' Educational Assistance	2,365
64.124 All-Volunteer Force Educational Assistance	73,704
64.203 State Cemetery Grants	139,662
<b>TOTAL</b>	<b>\$2,904,303</b>

**ENVIRONMENTAL PROTECTION AGENCY**

66.420 State and Local Manpower Development Program	37,345
66.433 State Underground Water Source Protection	101,220
66.456 National Estuary Program	217,861
66.458 Capitalization Grants For State Revolving Funds	8,889,600
66.460 Nonpoint Source Implementation Grants	2,066,316



State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2001

	AMOUNT
66.461 Wetlands Protection - State Development Grants	272,115
66.463 National Pollutant Discharge Elimination System Related State Program Grants	7,305
66.468 Capitalization Grants for Drinking Water State Revolving Fund	5,685,878
66.600 Environmental Protection Consolidated Grants Program	220,162
66.605 Performance Partnership Grants	3,541,084
66.606 Surveys, Studies, Investigations and Special Purpose Grants	71,538
66.607 Training and Fellowships for the Environmental Protection Agency	11,622
66.608 One Stop Reporting	2,478
66.700 Consolidated Pesticide Enforcement Cooperative Agreements	613,890
66.708 Pollution Prevention Grants Program	96,775
66.708 Pollution Prevention Grants Program: From Peaks to Prairies Info.	(634)
66.802 Superfund State Site - Specific Cooperative Agreements	978,111
66.804 State Underground Storage Tanks Program	1,772
66.805 Leaking Underground Storage Tank Trust Fund Program	809,573
66.808 Solid Waste Management Assistance	8,612
66.809 Superfund State Core Program Cooperative Agreements	427,599
66.950 Environmental Education and Training Program: From N.A. Assoc. for Environ.	63,877
66.951 Environmental Education Grants	41,610
<b>TOTAL</b>	<b>\$24,165,709</b>

**DEPARTMENT OF ENERGY**

81.041 State Energy Program	392,960
81.042 Weatherization Assistance for Low-Income Persons	2,267,317
81.086 Conservation Research and Development	1,970,486
81.086 Conservation Research and Development: From Pacific States Marine	141,476
81.104 Technology Development for Environmental Management	70,408
81.999 Miscellaneous Non-Major Grants	200,337
<b>TOTAL</b>	<b>\$5,042,984</b>

FY00 Financial Section

Auditor's Report & Findings

Corrective Action Plan

Summary Schedule of Prior Audit Findings

State of Montana  
**Schedule of Expenditures of Federal Awards**  
 For the Fiscal Year Ending June 30, 2001

AMOUNT

**FEDERAL EMERGENCY MANAGEMENT AGENCY**

83.007	Reimbursement for Firefighting on Federal Property	402,500
83.009	National Fire Academy Training Assistance	11,492
83.012	Hazardous Materials Assistance Program	5,333
83.527	Emergency Management Institute - Training Assistance	20,875
83.536	Flood Mitigation Assistance	113,517
83.539	Crisis Counseling	267,220
83.542	Fire Suppression Assistance	27,134,713
83.543	Individual and Family Grants	147,647
83.544	Public Assistance Grant	1,787,255
83.547	First Responder Anti-Terrorism Training Assistance	60,691
83.548	Hazard Mitigation Grant	61,435
83.551	Project Impact Building Disaster Resistant Communities	13,848
83.552	Emergency Management Performance Grants	1,624,211
83.999	Miscellaneous Non-Major Grants	(59,700)

<b>TOTAL</b>	<b>\$31,591,037</b>
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**DEPARTMENT OF EDUCATION**

84.002	Adult Education - State Grant Program	1,221,909
84.010	Title I Grants To Local Education Agencies	25,949,955
84.011	Migrant Education - Basic State Grant Program	976,333
84.013	Title I Program for Neglected and Delinquent Children	63,391
84.015	National Resource Centers and Fellowships Program for Language and Area or Language: From AID	14,563
84.016	Undergraduate International Studies and Foreign Language	19,076
84.023	Innovation and Development: From Potlatch School District	224
84.024	Early Education for Children with Disabilities	168,262
84.026	Media and Captioned Services for Individuals with Disabilities	4,538
84.029	Special Education - Personnel Development and Parent Training	228,959
84.048	Vocational Education - Basic Grants to States	5,007,583

State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2001

	AMOUNT
84.069 State Student Incentives Grants	204,423
84.083 Women's Educational Equity Act Program	90,523
84.086 Special Education-Program for Severely Disabled Children	229,260
84.094 Patricia Roberts Harris Fellowship	1,910
84.116 Fund for the Improvement of Postsecondary Education	43,900
84.126 Rehabilitation Services-Vocational Rehabilitation Grants to States	9,527,500
84.128 Rehabilitation Services-Service Projects	178,884
84.128 Rehabilitation Services-Service Projects: From Virginia Commonwealth	14,166
84.129 Rehabilitation Long-Term Training	56,489
84.144 Migrant Education - Coordination Program(B): From Illinois Migrant Council	8,935
84.158 Secondary Education and Transitional Services for Youth With Disabilities	296,206
84.162 Immigrant Education	20,819
84.169 Independent Living-State Grants	294,736
84.170 Javits Fellowships	3,009
84.177 Rehabilitation Services-Independent Living Services for Older Individuals/Blind	264,780
84.181 Special Education-Grants for Infants and Families with Disabilities	1,803,543
84.185 Byrd Honors Scholarships	144,018
84.186 Safe and Drug-Free Schools and Communities - State Grants	2,147,007
84.187 Supported Employment Services for Individuals with Severe Disabilities	295,787
84.194 Bilingual Education Support Services	92,775
84.195 Bilingual Education - Professional Development	784,334
84.196 Education for Homeless Children and Youth	115,600
84.203 Star Schools: From Educational Service Dist.	17,897
84.213 Even Start - State Educational Agencies	595,048
84.214 Even Start - Migrant Education	93,077
84.215 Fund for Improvement of Education	231,451
84.215 Fund for Improvement of Education: From Co. of State School Offic	30,385
84.216 Capital Expenses	585
84.224 State Grants for Assistive Technology	555,413
84.234 Projects with Industry	7,079

FY00 Financial Section

Auditor's Report & Findings

Corrective Action Plan

Summary Schedule of Prior Audit Findings

State of Montana  
 Schedule of Expenditures of Federal Awards  
 For the Fiscal Year Ending June 30, 2001

		AMOUNT
84.235	Special Projects and Demonstrations for Providing Vocational Rehabilitation	420,547
84.243	Tech-Prep Education	493,614
84.256	Freely Associated States - Education Grant Program: From U of California	22,897
84.264	Rehabilitation Training-Continuing Education	55,550
84.265	Rehabilitation Training-State Vocational Rehabilitation Unit In-Service	49,765
84.281	Eisenhower Professional Development State Grants	1,629,191
84.287	Twenty-First Century Community Learning Centers	924
84.295	Ready-To-Learn Television: From PBS	5,644
84.298	Innovative Education Program Strategies	1,611,888
84.303	Technology Innovation Challenge Grants	137,088
84.303	Technology Innovation Challenge Grants: From Polson Public Schools	489,175
84.314	Even Start - Statewide Family Literacy Program	262,109
84.318	Technology Literacy Challenge Fund Grants	1,284,796
84.323	Special Education - State Program Improvement Grants for Children with Disabilities	202,737
84.325	Special Education - Personnel Preparation to Improve Services and Results for Children	149,851
84.325	Special Education - Personnel Preparation to Improve Services and Results for Children: From University of Colorado	16,558
84.326	Special Education - Technical Assistance and Dissemination to Improve Services and Results	148,621
84.330	Advanced Placement Incentive Program	184,628
84.331	Grants to States for Incarcerated Youth Offenders	29,221
84.332	Comprehensive School Reform Demonstration	643,158
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)	3,277,330
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP): From U of M	8,379
84.335	Child Care Access Means Parents in School	15,254
84.339	Learning Anytime Anywhere Partnerships	72,329
84.340	Class Size Reduction	5,952,318
84.342	Preparing Tomorrow's Teachers to Use Technology	865,709
84.346	Occupational and Employment Information State Grants	115,844
84.346	Occupational and Employment Information State Grants: From Georgia State University	16,000

State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2001

		AMOUNT
84.348	Title I Accountability Grants	401,433
84.998	American Printing House for the Blind	2,320
84.999	Miscellaneous Non-Major Grants	6,195
84.999	Miscellaneous Non-Major Grants: From Columbia Education Center	15,739
84.999	Miscellaneous Non-Major Grants: From Educational Services, Inc	685
	<b>TOTAL</b>	<b>\$70,391,829</b>
<b>SPECIAL EDUCATION CLUSTER</b>		
84.027	Special Education - Grants to States	14,297,428
84.173	Special Education - Preschool Grants	1,313,533
	<b>TOTAL</b>	<b>\$15,610,961</b>
<b>STUDENT FINANCIAL ASSISTANCE CLUSTER</b>		
84.007	Federal Supplemental Educational Opportunity Grants	1,622,152
84.032	Federal Family Education Loans	1,242,468
84.033	Federal Work - Study Program	2,626,267
84.038	Federal Capital Contributions	596,944
84.063	Federal Pell Grant Program	24,412,766
84.268	Federal Direct Student Loans	28,925,788
	<b>TOTAL</b>	<b>\$59,426,385</b>
<b>TRIO CLUSTER</b>		
84.042	TRIO-Student Support Services	741,391
84.044	TRIO-Talent Search	407,087
84.047	TRIO-Upward Bound	1,616,659
84.066	TRIO-Educational Opportunity Centers	448,178
84.217	McNair Post - Baccalaureate Achievement	212,579
	<b>TOTAL</b>	<b>\$3,425,894</b>
<b>NATIONAL ARCHIVES AND RECORDS ADMINISTRATION</b>		
89.003	National Historical Publications and Records Grants	39,991
	<b>TOTAL</b>	<b>\$39,991</b>

FY00 Financial Section

Auditor's Report & Findings

Corrective Action Plan

Summary Schedule of Prior  
Audit Findings

State of Montana  
 Schedule of Expenditures of Federal Awards  
 For the Fiscal Year Ending June 30, 2001

AMOUNT

## DEPARTMENT OF HEALTH AND HUMAN SERVICES

93.041	Special Programs for the Aging-Title VII, Chapter 3-Programs for Prevention	33,759
93.042	Special Programs for the Aging-Title VII, Chapter 2-LongTerm Care Ombudsman Services	48,081
93.043	Special Programs for the Aging-Title III, Part F-DiseasePrevention/Health Promotion Serv	97,910
93.046	Special Programs for the Aging-Title III, Part D for In-Home Services	(268)
93.048	Special Programs for Aging-Title IV-Training, Research & Discretionary Projects & Programs	25,713
93.051	New Demonstration Grants to States with Respect to Alzheimer's Disease	3,492
93.110	Maternal and Child Health Federal Consolidated Programs	471,447
93.116	Project Grant and Cooperative for Tuberculosis Control Program	139,902
93.127	Emergency Medical Services for Children	151,757
93.130	Primary Care Services-Resource Coordination and Development Primary Care Offices	254,989
93.150	Projects for Assistance in Transition from Homelessness (PATH)	300,138
93.157	Centers of Excellence: From Univ. of Washington	270
93.178	Nursing Workforce Diversity	280,317
93.197	Childhood Lead Poisoning Prevention Projects-State and Community	264,075
93.217	Family Planning Services	1,494,928
93.223	Development and Coordination of Rural Health Services	1,439
93.228	Indian Health Service - Health Management Development Program	(442)
93.230	Consolidated Knowledge Development and Application Program	2,449,761
93.234	Traumatic Brain Injury-State Demonstration	70,470
93.235	Abstinence Education	212,566
93.237	Special Diabetes Program for Indians_Diabetes Prevention and Treatment Projects	19,500
93.238	Cooperative Agreements/ State Treatment Outcomes and Performance Pilot Studies Enhancement	128,502
93.241	State Rural Hospital Flexibility Program	932,523
93.251	Universal Newborn Hearing Screening	6,200
93.268	Childhood Immunization Grant	3,348,886

State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2001

	AMOUNT
93.283 Centers for Disease Control and Prevention-Investigations and Technical Assistance	1,586,463
93.289 President's Council on Physical Fitness and Sports: From NCAA	53,204
93.289 President's Council on Physical Fitness and Sports: From Natl Youth Sports	30,515
93.298 Nurse Practitioner and Nurse-Midwifery Education Programs	(531)
93.375 Minority Biomedical Research Support	228,564
93.556 Family Preservation and Support Services	855,498
93.558 Temporary Assistance for Needy Families (TANF)	35,297,065
93.560 Family Support Payments to States-Assistance Payments	1,027
93.563 Child Support Enforcement	8,827,962
93.566 Refugee and Entrant Assistance-State Administered Programs	98,789
93.568 Low Income Home Energy Assistance	11,650,676
93.569 Community Services Block Grant	2,306,302
93.571 Community Services Block Grant Discretionary Awards-Community Food and Nutrition	14,345
93.576 Refugee and Entrant Assistance-Discretionary Grants	31,479
93.586 State Court Improvement Program	104,357
93.590 Community-Based Family Resource and Support Grants	226,769
93.597 Grants to States for Access and Visitation Programs	100,688
93.600 Head Start	148,088
93.603 Adoption Incentive Payments	42,621
93.612 Native American Programs	48,561
93.630 Developmental Disabilities Basic Support and Advocacy Grants	375,401
93.632 Developmental Disabilities University Affiliated Programs	290,947
93.643 Children's Justice Grants to States	40,722
93.645 Child Welfare Service-State Grant	1,035,422
93.656 Temporary Child Care and Crisis Nurseries	(997)
93.658 Foster Care Title IV-E	10,859,654
93.659 Adoption Assistance	2,176,946
93.667 Social Services Block Grant	9,750,380
93.669 Child Abuse and Neglect State Grants	67,134

FY00 Financial Section

Auditor's Report & Findings

Corrective Action Plan

Summary Schedule of Prior Audit Findings

State of Montana  
**Schedule of Expenditures of Federal Awards**  
 For the Fiscal Year Ending June 30, 2001

		AMOUNT
93.671	Family Violence Prevention and Services/Grants for Battered Women's Shelters	377,235
93.674	Independent Living	295,518
93.767	State Children's Insurance Program	12,572,913
93.822	Health Careers Opportunities Program	442,409
93.824	Area Health Education Centers: From Univ. of Washington	77,600
93.847	Diabetes, Endocrinology and Metabolism Research	4,125
93.912	Rural Outreach-Rural Network Developmental Program	100,294
93.917	HIV Care Formula Grants	564,720
93.919	Cooperative Agreements for State-Based Breast and Cervical Cancer Early Detection	1,428,376
93.926	Healthy Start Initiative	133,050
93.938	Cooperative Agreements to Support School Health Programs	455,658
93.940	HIV Prevention Activities-Health Department Based	1,078,857
93.944	HIV/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	61,574
93.945	Assistance Program for Chronic Disease Prevention	119,990
93.958	Block Grants for Community Mental Health Services	1,473,075
93.959	Block Grants for Prevention and Treatment of Substance Abuse	5,326,566
93.970	Health Professions Recruitment Program for Indians	159,539
93.977	Preventive Health Services-Sexually Transmitted Diseases Control Grants	330,896
93.988	Cooperative Agreements for State-Based Diabetes Control Programs and Evaluations	444,189
93.991	Preventive Health and Health Services Block Grant	855,751
93.994	Maternal and Child Health Services Block Grant to the States	2,522,610
93.999	Miscellaneous Non-Major Grants	326,888
	<b>TOTAL</b>	<b>\$126,135,799</b>
<b>AGING CLUSTER</b>		
93.044	Special Programs for the Aging-Title III, Part B-Supportive Services and Senior Centers	1,659,220
93.045	Special Programs for the Aging-Title III, Part C-Nutrition Services	2,443,009
	<b>TOTAL</b>	<b>\$4,102,229</b>
<b>CHILD CARE CLUSTER</b>		
93.575	Child Care and Development Block Grant	13,753,489



State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2001

	AMOUNT
93.575 Child Care and Development Block Grant: From University of CT	11,077
93.596 Child Care Mandatory and Matching Funds of the Child Care and Development	6,785,088
<b>TOTAL</b>	<b>\$20,549,654</b>
<b>CONSOLIDATED HEALTH CENTERS CLUSTER</b>	
93.224 Community Health Centers: From Partnership Health	1,122
<b>TOTAL</b>	<b>\$1,122</b>
<b>MEDICAID CLUSTER</b>	
93.775 State Medicaid Fraud Control Units	305,561
93.777 State Survey and Certification of Health Care Providers and Suppliers	1,686,351
93.778 Medical Assistance Program	384,206,995
<b>TOTAL</b>	<b>\$386,198,907</b>
<b>CORPORATION FOR NATIONAL &amp; COMMUNITY SERVICE</b>	
94.003 State Commissions	140,455
94.004 Learn and Serve America-School and Community Based Programs	80,129
94.004 Learn and Serve America-School and Community Based Programs: From Corp. for Nat. Service	74,943
94.005 Learn & Serve America-Higher Education	91,015
94.005 Learn & Serve America-Higher Education: From AACTE/Seattle University	190
94.006 AmeriCorps	1,444,461
94.007 Planning and Program Development Grants	17,425
94.009 Training and Technical Assistance	136,889
94.013 Volunteers in Service to America	279,201
94.013 Volunteers in Service to America: From Corp. for National Serv.	27,275
<b>TOTAL</b>	<b>\$2,291,983</b>
<b>SOCIAL SECURITY ADMINISTRATION</b>	
96.008 Social Security-Benefits Planning, Assistance, and Outreach Program	28,419
<b>TOTAL</b>	<b>\$28,419</b>
<b>DISABILITY INSURANCE/SSI CLUSTER</b>	
96.001 Social Security - Disability Insurance	4,311,891

FY00 Financial Section

Auditor's Report & Findings

Corrective Action Plan

Summary Schedule of Prior Audit Findings

State of Montana  
 Schedule of Expenditures of Federal Awards  
 For the Fiscal Year Ending June 30, 2001

AMOUNT

TOTAL \$4,311,891

State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2001

AMOUNT

**RESEARCH AND DEVELOPMENT CLUSTER**

**DEPARTMENT OF AGRICULTURE**

10.001	Agricultural Research-Basic and Applied Research	503,054
10.025	Plant and Animal Disease, Pest Control, and Animal Care	60,994
10.163	Market Protection and Promotion	5,352
10.200	Grants for Agricultural Research, Special Research Grants	2,062,251
10.200	Grants for Agricultural Research, Special Research Grants: From Utah State University	7,912
10.200	Grants for Agricultural Research, Special Research Grants: From Washington State Univ.	31,404
10.200	Grants for Agricultural Research, Special Research Grants: From Univ. of Washington	20,797
10.200	Grants for Agricultural Research, Special Research Grants: From Pac. NW Canola Research	18,062
10.200	Grants for Agricultural Research, Special Research Grants: From Other Universities	29,936
10.200	Grants for Agricultural Research, Special Research Grants: From University of Idaho	21,231
10.206	Grants for Agricultural Research-Competitive Research Grants	1,395,219
10.206	Grants for Agricultural Research-Competitive Research Grants: From Kansas State University	12,369
10.206	Grants for Agricultural Research-Competitive Research Grants: From Other Universities	(3)
10.206	Grants for Agricultural Research-Competitive Research Grants: From Univ. of Idaho	125,923
10.207	Animal Health and Disease Research	(11,871)
10.212	Small Business Innovation Research: From Environ. & Petro. Consult	12,475
10.215	Sustainable Agriculture Research and Education: From Utah State University	5,619
10.217	Higher Education Challenge Grants	73,734
10.224	Fund for Rural America-Research, Education, and Extension Activities	(239)
10.224	Fund for Rural America-Research, Education, and Extension Activities: From University of Idaho	45,956
10.224	Fund for Rural America-Research, Education, and Extension Activities: From University of Minnesota	110,270
10.250	Agricultural and Rural Economic Research	11,655
10.302	Initiative for Future Agriculture and Food Systems	266,938
10.302	Initiative for Future Agriculture and Food Systems: From Univ. of CA Davis	23,145

FY00 Financial Section

Auditor's Report & Findings

Corrective Action Plan

Summary Schedule of Prior Audit Findings

State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2001

	AMOUNT
10.303 Integrated Programs: From Univ. of CA Davis	14,901
10.303 Integrated Programs: From Colorado State University	16,826
10.500 Cooperative Extension Service	529,847
10.500 Cooperative Extension Service: From Utah State University	52,615
10.500 Cooperative Extension Service: From Washington State Univ.	(1,100)
10.500 Cooperative Extension Service: From Univ. of Wyoming	1,424
10.652 Forestry Research	2,382,690
10.664 Cooperative Forestry Assistance	168
10.902 Soil and Water Conservation	57,703
10.961 International Agricultural Research Program	24,981
10.963 Scientific and Technical Cooperation	121,712
10.999 Miscellaneous Non-Major Grants	113,431
10.999 Miscellaneous Non-Major Grants: From Dull Knife Mem. College	40
10.R&D Miscellaneous Research and Development	46
<b>TOTAL</b>	<b>\$8,147,467</b>

**DEPARTMENT OF COMMERCE**

11.110 Trade Development	30,914
11.303 Economic Development-Technical Assistance	94,914
11.420 Coastal Zone Management Estuarine Research Reserves: From Bermuda Biol. Stat Reseac	10,660
11.427 Fisheries Development & Utilization Research	18,181
11.431 Climate and Atmospheric Research	73,797
11.433 Marine Fisheries Initiative	94,058
11.437 Pacific Fisheries Data Program	41,573
11.439 Marine Mammal Data Program	27,890
11.552 Telecommunications and Information Infrastructure Assistance Program	71,310
11.611 Manufacturing Extension Partnership	486,509
11.612 Advanced Technology Program	155,674
11.612 Advanced Technology Program: From Nat. Inst. of St. & Tech	(49)
<b>TOTAL</b>	<b>\$1,105,431</b>

**DEPARTMENT OF DEFENSE**

12.002 Procurement Technical Assistance For Business Firms	1,455,281
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State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2001

AMOUNT

12.114	Collaborative Research and Development	98,648
12.300	Basic and Applied Scientific Research	2,811,536
12.300	Basic and Applied Scientific Research: From Univ. of Colorado	101,241
12.420	Military Medical Research and Development	101,190
12.431	Basic Scientific Research	365,832
12.431	Basic Scientific Research: From Univ. of Chicago	2,486
12.630	Basic, Applied, and Advanced Research in Science and Engineering	267,779
12.800	Air Force Defense Research Sciences Program	444,436
12.800	Air Force Defense Research Sciences Program: From NW Research Assoc.	52,959
12.800	Air Force Defense Research Sciences Program: From Miscellaneous	948
12.910	Research and Technology Development	582,736
12.910	Research and Technology Development: From University of Idaho	(271)
<b>TOTAL</b>		<b>\$6,284,801</b>

**DEPARTMENT OF HOUSING & URBAN DEVELOPMENT**

14.200	Grants for Basic Water and Sewer Facilities	284,277
14.506	General Research and Technology Activity	462,500
<b>TOTAL</b>		<b>\$746,777</b>

**DEPARTMENT OF THE INTERIOR**

15.034	Agriculture on Indian Lands	79
15.130	Indian Education: Assistance to Schools	17,502
15.219	Wildlife Habitat Management Technical Assistance	5,590
15.224	Cultural Resource Management	175,485
15.225	Recreation Resource Management	8,508
15.228	Wildland Urban Interface Community and Rural Fire Assistance	2,605
15.252	Abandoned Mine Land Reclamation (AMLR) Program	34,580
15.299	Miscellaneous Non-Major Grants	1,144,595
15.504	Reclamation and Water Reuse Program	(10)
15.605	Sport Fish Restoration	415
15.608	Fish and Wildlife Management Assistance	377,794
15.608	Fish and Wildlife Management Assistance: From FWP	17,380
15.614	Coastal Wetlands Planning, Protection and Restoration Act	18,708

FY00 Financial Section

Auditor's Report & Findings

Corrective Action Plan

Summary Schedule of Prior  
Audit Findings

State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2001

	AMOUNT
15.617 Wildlife Conservation and Appreciation	47,538
15.618 Administrative Grants for Federal Aid in Sport Fish and Wildlife Restoration	43,277
15.699 USDI/Fish & Wildlife Service	74,302
15.805 Assistance to State Water Resources Research Institutes	180,385
15.808 U.S. Geological Survey-Research and Data Acquisition	1,124,098
15.808 U.S. Geological Survey-Research and Data Acquisition: From DOI	(1,757)
15.904 Historic Preservation Fund Grants-in-Aid	16,586
15.910 National Natural Landmarks Program	51,457
15.912 National Historic Landmark	97,697
15.915 Technical Preservation Services	56,635
15.916 Outdoor Recreation: Acquisition, Development and Planning	23,962
15.921 Rivers, Trails and Conservation Assistance	738
15.923 National Center for Preservation Technology and Training	(1)
15.975 Research Information	188,362
15.977 State Partnerships	71,640
15.999 Miscellaneous Non-Major Grants	677,902
15.R&D Miscellaneous Research and Development	1,369,820
15.R&D Miscellaneous Research and Development: From A. Carhart	52,522
<b>TOTAL</b>	<b>\$5,878,394</b>

**DEPARTMENT OF LABOR**

17.248 Employment and Training Research and Development Projects	5,407
<b>TOTAL</b>	<b>\$5,407</b>

**DEPARTMENT OF STATE**

19.406 College & University Affiliations Program	278,886
<b>TOTAL</b>	<b>\$278,886</b>

**DEPARTMENT OF TRANSPORTATION**

20.205 Highway Planning and Construction	222,701
20.301 Railroad Safety	2,316
20.505 Federal Transit Technical Studies Grant	1,975
20.701 University Transportation Centers Program	1,506,166

State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2001

		AMOUNT
20.701	University Transportation Centers Program: From Univ. of North Dakota	(24,980)
<b>TOTAL</b>		<b>\$1,708,178</b>
<b>DEPARTMENT OF TREASURY</b>		
21.020	Community Development Financial Institutions Program	(44,031)
<b>TOTAL</b>		<b>(\$44,031)</b>
<b>GENERAL SERVICES ADMINISTRATION</b>		
39.009	Federal Consumer Information Center: From Dickinson State Univ.	5,688
<b>TOTAL</b>		<b>\$5,688</b>
<b>NATIONAL AERONAUTICS AND SPACE ADMINISTRATION</b>		
43.001	Aerospace Education Services Program	2,282,240
43.001	Aerospace Education Services Program: From Univ. of N. Dakota	74,329
43.001	Aerospace Education Services Program: From Thermal Biology Institute	27,953
43.001	Aerospace Education Services Program: From Smithsonian Astro.Observ.	3,189
43.001	Aerospace Education Services Program: From Miscellaneous	4
43.001	Aerospace Education Services Program: From Univ. of North Dakota	77,487
43.001	Aerospace Education Services Program: From NASA	31,878
43.001	Aerospace Education Services Program: From Lockheed Martin Corp.	14,002
43.001	Aerospace Education Services Program: From Jet Propulsion Laboratory	25,399
43.001	Aerospace Education Services Program: From NCUNI01	16,092
43.001	Aerospace Education Services Program: From Lockheed Martin Corp.	250,658
43.001	Aerospace Education Services Program: From University of CA Berk.	39,413
43.002	Technology Transfer	2,418,312
43.002	Technology Transfer: From Other Universities	2,256
43.999	Miscellaneous Non-Major Grants	2,451,791
43.999	Miscellaneous Non-Major Grants: From Lockheed Martin Corp.	260
43.999	Miscellaneous Non-Major Grants: From Lockheed Martin Corp.	418,219
43.999	Miscellaneous Non-Major Grants: From Univ. of North Dakota	18,491
43.999	Miscellaneous Non-Major Grants: From University of Alaska	25,771
43.999	Miscellaneous Non-Major Grants: From California State Univ.	37,592
43.999	Miscellaneous Non-Major Grants: From California Institute Tech	49,001
43.999	Miscellaneous Non-Major Grants: From Salish Kootenai College	19,573

FY00 Financial Section

Auditor's Report & Findings

Corrective Action Plan

Summary Schedule of Prior Audit Findings

State of Montana  
**Schedule of Expenditures of Federal Awards**  
 For the Fiscal Year Ending June 30, 2001

	AMOUNT
43.999 Miscellaneous Non-Major Grants: From Univ. of Idaho	138,971
43.R&D Miscellaneous Research and Development	39,451
43.R&D Miscellaneous Research and Development: From Seach for Extrater. Intel	129
43.R&D Miscellaneous Research and Development: From Univ. of North Dakota	70,313
43.R&D Miscellaneous Research and Development: From Virginia Tech	12,317
<b>TOTAL</b>	<b>\$8,545,091</b>

**NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES**

45.003 Promotion of the Arts in Education	307
45.149 Promotion of the Humanities Division of Preservation and Access	2,555
<b>TOTAL</b>	<b>\$2,862</b>

**NATIONAL SCIENCE FOUNDATION**

47.041 Engineering Grants	1,975,592
47.049 Mathematical and Physical Sciences	2,017,776
47.049 Mathematical and Physical Sciences: From Univ. of Alabama	(11,647)
47.049 Mathematical and Physical Sciences: From Temple University	37,262
47.049 Mathematical and Physical Sciences: From Univ. of Missouri	171,171
47.049 Mathematical and Physical Sciences: From Skidaway Inst Ocean	29,936
47.049 Mathematical and Physical Sciences: From Univ. of Maine	15,696
47.050 Geosciences	369,014
47.050 Geosciences: From Univ. of Oregon	230
47.050 Geosciences: From Ohio University	136,623
47.066 Tech Prep and Enhancement	692
47.070 Computer and Information Science and Engineering	240,820
47.073 Science and Technology Centers	34,073
47.074 Biological Sciences	2,501,010
47.074 Biological Sciences: From Colorado State University	138,159
47.074 Biological Sciences: From Univ. of Texas	9,247
47.074 Biological Sciences: From Univ. of CA - San Diego	278
47.074 Biological Sciences: From Univ. of CA - Lawerence	91,236
47.074 Biological Sciences: From North Carolina State Univ	10,588
47.075 Social, Behavioral, and Economic Sciences	124,796



State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2001

AMOUNT

47.076	Education and Human Resources	2,771,509
47.076	Education and Human Resources: From BITRES	1,643
47.076	Education and Human Resources: From Univ. of Kentucky	49,315
47.077	Academic Research Infrastructure	125,010
47.078	Polar Programs	175,698
47.078	Polar Programs: From National Science Found.	13,560
<b>TOTAL</b>		<b>\$11,029,287</b>

FY00 Financial Section

Auditor's Report & Findings

Corrective Action Plan

Summary Schedule of Prior Audit Findings

**ENVIRONMENTAL PROTECTION AGENCY**

66.009	Air Information Center: From Univ. of Texas	44,030
66.454	Water Quality Management Planning	9,171
66.456	National Estuary Program	208,839
66.460	Nonpoint Source Implementation Grants	324,396
66.460	Nonpoint Source Implementation Grants: From Miscellaneous	8,296
66.460	Nonpoint Source Implementation Grants: From Big Horn Conservation Dis	10,976
66.460	Nonpoint Source Implementation Grants: From Rosebud Co.Conserv. Dist.	33,084
66.460	Nonpoint Source Implementation Grants: From Teton Co. Conserv. Dist.	10,156
66.460	Nonpoint Source Implementation Grants: From Glacier Co.Conserv. Dist.	101
66.460	Nonpoint Source Implementation Grants: From Hill County Conservation	1,735
66.468	Capitalization Grants for Drinking Water State Revolving Fund	171,883
66.500	Environmental Protection: Consolidated Research	1,409,603
66.500	Environmental Protection: Consolidated Research: From CH2M HILL	20,000
66.500	Environmental Protection: Consolidated Research: From Michigan State University	7,145
66.500	Environmental Protection: Consolidated Research: From Kansas State University	60,622
66.502	Pesticides Control Research	109,589
66.606	Surveys, Studies, Investigations and Special Purpose Grants	652,892
66.607	Training and Fellowships for the Environmental Protection Agency	26,388
66.651	Sustainable Development Challenge Grants	18,323
66.708	Pollution Prevention Grants Program	95,232
66.802	Superfund State Site - Specific Cooperative Agreements	3,037
66.802	Superfund State Site - Specific Cooperative Agreements: From CH2M HILL	61,774
66.802	Superfund State Site - Specific Cooperative Agreements: From CDM Federal Program Corp.	319,396

State of Montana  
**Schedule of Expenditures of Federal Awards**  
 For the Fiscal Year Ending June 30, 2001

		AMOUNT
66.806	Superfund Technical Assistance Grants for Citizen Groups at Priority Sites	544
66.808	Solid Waste Management Assistance	23,933
	<b>TOTAL</b>	<b>\$3,631,145</b>

**DEPARTMENT OF ENERGY**

81.004	University Laboratory Cooperative Program	338,689
81.041	State Energy Program	33,476
81.049	Office of Energy Research Financial Assistance Program	508,449
81.049	Office of Energy Research Financial Assistance Program: From UT-Battelle, LLC	39,262
81.049	Office of Energy Research Financial Assistance Program: From Princeton University	97,540
81.049	Office of Energy Research Financial Assistance Program: From Other Universities	(27,231)
81.049	Office of Energy Research Financial Assistance Program: From MACTEC Inc.	(16,084)
81.049	Office of Energy Research Financial Assistance Program: From Inland NW Research Allian	18,208
81.064	Office of Scientific and Technical Information	47,292
81.079	Regional Biomass Energy Programs	84,342
81.087	Renewable Energy Research and Development	56,252
81.089	Fossil Energy Research and Development	41,358
81.089	Fossil Energy Research and Development: From Ohio University	50,722
81.104	Technology Development for Environmental Management: From Sandia Labs	1,181
81.104	Technology Development for Environmental Management: From Moutain States Energy	392,001
81.119	State Energy Program Special Projects	22,453
81.999	Miscellaneous Non-Major Grants: From Univ. of Wisconsin	2,973
	<b>TOTAL</b>	<b>\$1,690,883</b>

**DEPARTMENT OF EDUCATION**

84.023	Innovation and Development	151,112
84.025	Services for Children With Deaf-Blindness: From WY Dept of Education	1,576
84.042	TRIO-Student Support Services	283,236
84.116	Fund for the Improvement of Postsecondary Education	12,925
84.133	National Institute on Disability and Rehabilitation Research	731,507
84.133	National Institute on Disability and Rehabilitation Research: From U of Kansas	3,189
84.153	Business and International Education	31,906

State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2001

AMOUNT

84.314	Even Start - Statewide Family Literacy Program	12,670
84.324	Special Education-Research and Innovation to Improve Services and Results for Children	204,392
93.647	Social Services Research and Demonstration	136,858
<b>TOTAL</b>		<b>\$1,569,371</b>

**UNITED STATES INSTITUTE OF PEACE**

91.001	International Peace and Conflict Management-Research and Education	2,137
<b>TOTAL</b>		<b>\$2,137</b>

**DEPARTMENT OF HEALTH AND HUMAN SERVICES**

93.113	Biological Response to Environmental Health Hazards	618,068
93.121	Oral Diseases and Disorders Research	250,460
93.121	Oral Diseases and Disorders Research: From GEOUNI001	38,418
93.136	Injury Prevention and Control Research and State and Community Based Programs	198,186
93.173	Research Related to Deafness and Communication Disorders	134,506
93.173	Research Related to Deafness and Communication Disorders: From Univ. of CA - San Diego	42,179
93.173	Research Related to Deafness and Communication Disorders: From National Inst. of Health	28,495
93.173	Research Related to Deafness and Communication Disorders: From Allegheny-Singer Res. Ins	170,544
93.184	Disabilities Prevention	552,655
93.213	Research and Training in Complementary and Alternative Medicine	27,034
93.242	Mental Health Research Grants	232,009
93.242	Mental Health Research Grants: From Behavior Tech Group	20,970
93.272	Alcohol National Research Service Awards for Research Training	17,411
93.279	Drug Abuse Research Programs	(4,857)
93.282	Mental Health National Research Service Awards for Research Training	39,257
93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance	104,433
93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance: From University of Utah	2,173
93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance: From Other Universities	(3)
93.358	Professional Nurse Traineeships	33,977
93.360	General Medical Sciences	19,496

FY 00 Financial Section

Auditor's Report & Findings

Corrective Action Plan

Summary Schedule of Prior Audit Findings

State of Montana  
 Schedule of Expenditures of Federal Awards  
 For the Fiscal Year Ending June 30, 2001

		AMOUNT
93.361	Nursing Research	127,770
93.371	Biomedical Technology	265,358
93.371	Biomedical Technology: From Other Universities	13,088
93.389	Research Infrastructure	284,869
93.395	Cancer Treatment Research	457,536
93.595	Welfare Reform Research, Evaluations and National Studies	247,286
93.779	Health Care Financing Research, Demonstrations and Evaluations	170,480
93.821	Cell Biology and Biophysics Research	590,432
93.837	Heart and Vascular Diseases Research	55,687
93.839	Blood Diseases and Resources Research	194,916
93.846	Arthritis, Musculoskeletal and Skin Diseases Research	132,884
93.847	Diabetes, Endocrinology and Metabolism Research	(3,293)
93.849	Kidney Diseases, Urology and Hematology Research	185,848
93.854	Biological Basis Research in the Neurosciences	514,388
93.854	Biological Basis Research in the Neurosciences: From U of California	9,884
93.855	Allergy, Immunology and Transplantation Research	855,859
93.856	Microbiology and Infectious Diseases Research	2,563,806
93.856	Microbiology and Infectious Diseases Research: From Cornell University	31,186
93.856	Microbiology and Infectious Diseases Research: From Washington Univ-ST Louis	54,507
93.856	Microbiology and Infectious Diseases Research: From HARBOR-UCLA Institute	306,111
93.859	Pharmacology, Physiology, and Biological Chemistry Research	723,296
93.862	Genetics and Developmental Biology Research	303,439
93.864	Population Research	82,591
93.865	Center for Research for Mothers and Children	34,490
93.865	Center for Research for Mothers and Children: From Georgia State University	19,169
93.867	Vision Research	395,245
93.887	Project Grants for Renovation or Construction of Non-Acute Health Care Facilities	723,819
93.905	Indian Health Service Research: From Indian Health Service	469
93.906	Rural Health Medical Education Demonstration Projects	120,946
93.912	Rural Outreach-Rural Network Developmental Program	1,191
93.922	Minority Apprenticeship Program	14,611

State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2001

AMOUNT

93.999	Miscellaneous Non-Major Grants: From Univ. of South Dakota	55,601
	<b>TOTAL</b>	<b>\$12,058,880</b>

**OTHER FEDERAL**

99.R&D	Miscellaneous: From Univ. of Hawaii at Manoa	206,366
	<b>TOTAL</b>	<b>\$206,366</b>

<b>TOTAL RESEARCH AND DEVELOPMENT CLUSTER</b>	<b>\$62,853,020</b>
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<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>	<b>\$1,396,012,985</b>
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FY00 Financial Section

Auditor's Report & Findings

Corrective Action Plan

Summary Schedule of Prior  
Audit Findings

STATE OF MONTANA  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2001

**Note 1. Basis of Accounting**

The assistance amounts presented in the accompanying Schedule of Expenditures of Federal Awards of the State of Montana are generally expenditures or reimbursement revenues recorded on the modified accrual basis. This method recognizes expenditures in the accounting period in which the liability is incurred and revenues when measurable and available. Assistance amounts reported on a basis other than modified accrual are discussed below.

**Food Distribution Program**

The amount reported for Food Distribution programs (CFDA #10.567, #10.569, #10.570 and #10.565) represent the dollar value of food commodities distributed to eligible recipients during the year. The U.S. Department of Agriculture provides the current value of the commodities used by the state to compute the amount reported. The amount of funds received to administer the program is also included in the reported amount. Montana also distributes food commodities to other states in the western region of the United States, the value of which is excluded from the reported amounts. During fiscal year 2001, Montana distributed \$587,222 of food commodities under CFDA #10.567 to other states.

The state of Montana distributed \$6,454,990 in commodities in fiscal year 2001. The value at June 30, 2001 of commodities stored at the state's warehouse is \$2,191,527 for which the state is liable in the event of loss. The state has insurance to cover this liability.

**Federal Surplus Personal Property**

In accordance with General Service Administration guidelines, the amount presented for Donations of Federal Surplus Personal Property (CFDA #39.003) is 23.3 percent of the original acquisition cost of the property.

**Capitalization Grants for State Revolving Funds**

The amount presented for the Capitalization Grants for Water Pollution Control State Revolving Fund (CFDA #66.458) represents the administrative costs expended as of June 30. The amount of loans outstanding as of June 30, 2001 in the Water Pollution Control Revolving Fund Program is \$56,970,165.

The amount presented for the Drinking Water State Revolving Fund Program (CFDA #66.468) represents administrative costs expended as of June 30, 2001. The amount of loans outstanding for the program as of June 30, 2001 is \$29,620,487.

Special Economic Development and Adjustment Assistance Program

The amount presented for the Special Economic Development and Adjustment Assistance Program (CFDA #11.307) represents federal contributions, plus the administrative costs expended as of June 30. The amount of loans outstanding as of June 30, 2001 is \$1,038,684.

Federal Family Education Loans

The Montana Guaranteed Student Loan Program (MGSLP) guaranteed \$87,986,560 in new loans for the Federal Family Education Loans (CFDA #84.032) program during FY 2001. The outstanding loan balance (including principle, accrued interest and collection costs) of loans guaranteed in previous years for which the federal government has imposed continuing compliance requirements was \$70,912,468 at June 30, 2001. The amount reported on the accompanying Schedule of Expenditures of Federal Awards represents the administrative cost allowance received for the program. In addition to the administrative cost allowance, MGSLP received or accrued revenue from the U.S. Department of Education in FY 2001 of \$17,655,037 for reinsurance to pay claims for loans due to death, disability, default and bankruptcy of the debtor

Federal Perkins Loan Program – Federal Capital Contributions

The amount reported for the Federal Perkins Loan Program – Federal Capital Contributions (CFDA #84.038) represents federal contributions, plus the administrative costs, plus interest expended as of June 30, 2001. The amount of loans outstanding as of June 30, 2001 is 27,829,678.

Nursing Student Loan Program

The amount of loans outstanding for the Nursing Student Loan Program (CFDA #93.364) as of June 30, 2001 is \$1,173,753.

Childhood Immunization Grants

The amount reported for the Childhood Immunization Grants (CFDA #93.268) includes the dollar value of vaccine doses received during FY01. The state used the CDC price list to calculate the value of doses received. During fiscal year 2001, Montana received 317,068 vaccine doses valued at \$2,364,239.

Tongue River –Northern Cheyenne Tribal Loan

The Northern Cheyenne Tribe and the Department of Natural Resources and Conservation entered into an agreement on July 1, 1994 in which the tribe agreed to loan the State of Montana \$11,500,000 of federal funds appropriated as part of the Northern Cheyenne Indian Reserved Water Rights Settlement. The loan is to assist the state in financing costs of the Tongue River Dam project. The amount of the loan outstanding as of June 30, 2001 is \$10,720,513.



**Note 2. Type A Federal Programs**

The Single Audit Act Amendments of 1996 and OMB Circular A-133 establish the level of federal award expenditures to be used in defining Type A and Type B federal assistance programs. Type A programs for the state of Montana are those which total federal awards expenditures equal or exceed \$7,936,832 for the biennial period.

**Note 3. CFDA #**

The CFDA # assigned for each federal program listed in the Schedule of Expenditures of Federal Awards was based upon agency agreements with the federal government and the Catalog of Federal Domestic Assistance in effect during the audit period.

Programs not assigned a CFDA # in the Catalog of Federal Domestic Assistance were assigned a CFDA # in the format \*\*.99, \*\*.999, or \*\*.R&D. The first two digits represent the federal agency, the third digit represents the division within the federal agency, and "R&D" designation represents a research and/or development program. Research is defined as a systematic study directed toward fuller scientific knowledge or understanding of the subject studied. The term research also includes activities involving the training of individuals in research techniques where such activities utilize the same facilities as other research and development activities and where such activities are not included in the instruction function. Development is the systematic use of knowledge and understanding gained from research directed toward the production of useful materials, devices, systems, or methods, including design and development of prototypes and processes. In cases where the federal agency does not have a designated CFDA#, the program was assigned a CFDA# in the format 99.999.

**Note 4. Federal Excess Personal Property**

The State of Montana receives Federal Excess Personal Property (FEPP). The title to this property remains with the federal agency. In accordance with General Services Administration guidelines, the amount presented in the FEPP is 23.3 percent of the original acquisition cost of the property. The following is a list of the FEPP received by the State of Montana.

<u>CFDA #</u>	<u>Program</u>	<u>FY01 Amount</u>	<u>Inventory</u>
10.664	Cooperative Forestry Assistance	\$14,873	\$5,520,610
12.999	Miscellaneous Non-Major	0	63,758
47.999	National Science Foundation	49,936	986,872
93.103	Food/Drug Administration Research	0	1,282



**Note 5. Books for the Blind and Physically Handicapped:**

The Montana State Library receives "talking book" machines, cassette books, accessories and magazines from the federal government under the Blind and Physically Handicapped program (CFDA #42.001). These items are then distributed to provide library services to blind and physically handicapped individuals. The federal government retains title to these items. The approximate value of the items in inventory (not distributed to individuals) at June 30, 2001, was \$2,203,204. The accompanying Schedule of Expenditures of Federal Awards does not include this amount.

**Note 6. Unemployment Benefits**

The unemployment compensation system is a Federal-State partnership. State Unemployment Insurance laws must conform to certain provisions of the federal law. The federal funds are expended for administrative costs. The state unemployment taxes must be deposited into a state account in the Federal Unemployment Trust Fund, used only to pay benefits. State Unemployment Insurance (UI) funds, as well as federal funds, are included on the Schedule of Expenditures of Federal Awards (SEFA). The following schedule provides a breakdown of the state and federal portions of the total expenditures recorded for CFDA #17.225.

UI Administrative Costs	\$ 8,805,422
State UI Funds	64,025,507
Federal UI Funds	<u>3,351,355</u>
Total	\$76,182,284

**Note 7. Subgrants to State Agencies**

Federal assistance subgranted from one Montana state agency to another Montana state agency is shown only once on the Schedule of Expenditures of Federal Awards.

Federal assistance received from nonstate sources which are considered subgrants by the awarding agency are treated as pass through grants to the state and are reported on the Schedule of Expenditures of Federal Awards.

**Note 8. Subgrants to Non-State Entities**

The following is a list of federal funds passed through from the state of Montana to non-state entities for fiscal year 2001.

CFDA Number	Program Title	Amount Provided To Subrecipient
10.200	Grants for Agricultural Research, Special Research Grants	502,316
10.206	Grants for Agricultural Research & Competitive Research Grants	25,458
10.250	Agricultural and Rural Economic Research	4,666
10.500	Cooperative Extension Service	32,683
10.553	School Breakfast Program	2,978,984
10.555	National School Lunch Program	14,202,093
10.556	Special Milk Program for Children	38,950
10.557	Special Supplemental Nutrition Program for WIC	3,569,138
10.558	Child and Adult Care Food Program	8,914,556
10.559	Summer Food Program for Children	558,883
10.561	State Administrative Matching Grants for Food Stamp Program	238,687
10.570	Nutrition Program for the Elderly (Commodities)	566,307
10.572	WIC Farmers' Market Nutrition Program (FMNP)	13,650
10.652	Forestry Research	15,073
10.999	Department of Agriculture - Miscellaneous	2,303,866
11.609	Measurement and Engineering Research and Standards	473,587
11.612	Advanced Technology Program	353
12.002	Procurement Technical Assistance For Business Firms	40,515
12.300	Basic and Applied Scientific Research	191,502
12.420	Military Medical Research and Development	66,689
12.431	Basic Scientific Research	18,327
12.800	Air Force Defense Research Sciences Program	13,052
12.900	Language Grant Program	16,057
12.910	Research & Technology Development	7,282
14.149	Rent Supplements-Rental Housing for Lower Income Families	4,701,837
14.228	Community Development Block Grant/State's Program	6,725,256
14.239	Home Investment Partnerships Program	3,522,187
14.856	Lower Income Housing Assistance Program - Section 8 Moderate Rehab	123,534
14.871	Section 8 Housing Choice Vouchers	812,332
14.999	Miscellaneous Non-Major Grants	16,912
15.299	Miscellaneous Non-Major Grants	40,414
15.608	Fish and Wildlife Management Assistance	103,546
15.809	National Spatial Data Infrastructure Cooperative Agreements Program	6,500
15.910	National Natural Landmarks Program	1,641
15.912	National Historic Landmark	74,039
15.915	Technical Preservation Services	675
15.916	Outdoor Recreation-Acquisition, Development and Planning	5,085
15.975	Research Information	32,647
15.999	Miscellaneous Department of Interior	449,569
16.007	State Domestic Preparedness Equipment Support Program	234,338
16.523	Juvenile Accountability Incentive Block Grants	1,722,348
16.540	Juvenile Justice & Delinquency Prevention- Allocation to States	594,937
16.548	Title V Delinquency Prevention Program	160,100
16.549	Part E State Challenge Activities	55,000
16.575	Crime Victim Assistance	1,509,395
16.579	Byrne Formula Grant Program	1,682,461
16.588	Violence Against Women Formula Grant	695,283
16.592	Local Law Enforcement Block Grant Program	179,012
16.727	Enforcing Underage Drinking Laws Program	422,785
17.248	Employment and Training Research and Development Projects	150,000
17.249	Employment Services and Job Training- Pilot and Demo. Programs	2,334,860
17.250	Job Training Partnership Act (JTPA)	9,122
19.999	Miscellaneous Non-Major Grants	27,484
20.005	Boating Safety Financial Assistance	8,578
20.205	Highway Planning and Construction	3,701,363
20.219	Recreational Trails	714,439
20.505	Federal Transit Technical Studies Grant	213,699
20.507	Federal Transit Capital and Operating Assistance Formula Grant	1,495,087
20.513	Capital Assistance Program for the Elderly and Persons with Disabilities	383,748
20.600	State and Community Highway Safety	591,312
20.701	University Transportation Centers Program	175,191
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	19,860
43.001	Aerospace Education Services Program	65,045
43.002	Technology Transfer	377,806
43.999	Miscellaneous NASA	125,539

<b>CFDA Number</b>	<b>Program Title</b>	<b>Amount Provided To Subrecipient</b>
45.025	Promotion of the Arts-Partnership Agreements	252,936
45.026	Promotion of the Arts-Leadership Initiatives	15,000
45.310	Institute of Museum & Library Services - General Operating Support	103,918
47.041	Engineering Grants	113,560
47.049	Mathematical and Physical Sciences	26,392
47.074	Biological Sciences	123,676
47.075	Social, Behavioral, and Economic Sciences	1,359
47.076	Education and Human Resources	143,689
59.037	Small Business Development Center	417,400
64.015	Veterans State Nursing Home Care	996,455
66.418	Construction Assistance for Waste Water Treatment	(5,000)
66.456	National Estuary Program	144,577
66.500	Environmental Protection: Consolidated Research Grants	55,404
66.708	Pollution Prevention Grants Program	8,500
81.042	Weatherization Assistance for Low-Income Persons	11,013
81.049	Office of Science Financial Assistance Program	48,352
83.542	Fire Suppression Assistance	1,880,717
83.544	Public Assistance Grants	1,746,678
83.548	Hazard Mitigation Grant Program	26,756
83.552	Emergency Management Performance Grants	900,280
84.002	Adult Education-State Grant Program	1,042,968
84.010	Title I Grants to Local Educational Agencies	25,417,493
84.011	Migrant Education-Basic State Grant Program	851,950
84.013	Title I Program for Neglected and Delinquent Children	62,029
84.024	Early Education for Children with Disabilities	7,478
84.027	Special Education - Grants to States	13,183,709
84.048	Vocational Education - Basic Grants to States	3,573,679
84.069	State Student Incentive Grants	69,168
84.133	National Institute on Disability and Rehabilitation Research	47,916
84.162	Immigrant Education	20,531
84.173	Special Education - Preschool Grants	1,268,854
84.186	Safe & Drug Free Schools and Communities - State Grants	1,982,063
84.196	Education for Homeless Children and Youth	59,250
84.213	Even Start - State Educational Agencies	565,631
84.214	Even Start - Migrant Education	15,000
84.215	Fund for the Improvement of Education	14,458
84.216	Capital Expense	585
84.224	Assistive Technology	23,681
84.235	Special Projects & Demonstrations for Providing Vocation Rehab Services	57,196
84.243	Tech-Prep Education	439,514
84.264	Rehabilitation Training-Continuing Education	17,903
84.281	Eisenhower Professional Development State Grants	1,213,403
84.298	Innovative Education Program Strategies	1,411,894
84.303	Technology Innovation Challenge Grants	12,500
84.314	Even Start-Statewide Family Literacy Program	136,800
84.318	Technology Literacy Challenge Fund Grants	1,156,962
84.323	Special Education-State Program Improvement Grants for Children with Disabilities	5,000
84.324	Special Education-Research and Innovation to Improve Services and Results for Children with Dis	29,853
84.332	Comprehensive School Reform Demonstration	620,721
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	1,088,295
84.340	Class Size Reduction	5,952,318
84.348	Title I Accountability Grants	401,433
93.041	Special Programs for the Aging -Title VII, Chapter 3: Prevention	21,669
93.042	Special Programs for the Aging -Title VII, Chapter 2: Long Term Care	48,081
93.043	Special Programs for the Aging - Title III, Part F: Disease Prevention	97,038
93.044	Special Programs for the Aging - Title III, Part B: Supportive Services	1,351,348
93.045	Special Programs for the Aging - Title III, Part C: Nutrition Services	2,336,629
93.048	Special Programs for the Aging - Title IV: Training, Research	21,994
93.103	Food and Drug Administration-Research	829
93.110	Maternal and Child Health Federal Consolidated Programs	84,332
93.150	Projects for Assistance in Transition from Homelessness (PATH)	297,157
93.184	Disabilities Prevention	32,562
93.217	Family Planning Services	1,115,290
93.230	Consolidated Knowledge Development and Application (KD&A) Program	1,964,526
93.235	Abstinence Education	85,480
93.241	State Rural Hospital Flexibility Program	407,911

**FY00 Financial Section**

**Auditor's Report & Findings**

**Corrective Action Plan**

**Summary Schedule of Prior  
Audit Findings**

<i>CFDA Number</i>	<i>Program Title</i>	<i>Amount Provided To Subrecipient</i>
93.389	Research Infrastructure	101,567
93.395	Cancer Treatment Research	23,821
93.556	Family Preservation and Support Services	251,207
93.558	Temporary Assistance for Needy Families (TANF)	260,844
93.566	Refugee and Entrant Assistance-State Administered Programs	138,796
93.568	Low-Income Home Energy Assistance	4,500
93.575	Child Care and Development Block Grant	4,451,288
93.576	Refugee and Entrant Assistance-Discretionary Grants	31,479
93.596	Child Care Mandatory and Matching Funds of the Child Care & Development	37
93.600	Head Start	147,968
93.656	Temporary Child Care and Crisis Nurseries	7,713
93.658	Foster Care Title IV-E	851,406
93.669	Child Abuse and Neglect State Grants	188,556
93.671	Family Violence Prevention and Services/Grants for Battered Women	356,467
93.674	Independent Living	200,440
93.778	Medical Assistance Program	80,347
93.779	Health Care Financing Research, Demonstrations, and Evaluations	144,165
93.821	Cell Biology and Biophysics Research	33,351
93.854	Biological Basis Research in the Neurosciences	6,533
93.856	Microbiology and Infectious Diseases Research	7,868
93.912	Rural Outreach & Rural Network Development Program	22,321
93.919	Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Dete	16,530
93.926	Healthy Start Initiative	59,218
93.940	HIV Prevention Activities-Health Department Based	1,000
93.951	Demonstration Grants to States with Respect to Alzheimers Disease	(1,944)
93.959	Block Grants for Prevention and Treatment of Substance Abuse	4,683,201
93.991	Preventive Health and Health Services Block Grant	157,260
93.994	Maternal and Child Health Services Block Grant to the States	1,126,297
93.999	Miscellaneous Non-Major Grants	153,347
94.004	Learn and Serve America - School and Community Based Program	123,649
94.005	Learn and Serve America - Higher Education	3,636
94.006	Americorps	1,471,901
94.007	Planning and Program Development Grants	16,715
<b>TOTAL</b>		<b>159,805,667</b>

# LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor  
John W. Northey, Legal Counsel



Deputy Legislative Auditors:  
Jim Pellegrini, Performance Audit  
Tori Hunthausen, IS Audit & Operations  
James Gillett, Financial-Compliance Audit

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF GENERAL PURPOSE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Legislative Audit Committee  
of the Montana State Legislature:

We have audited the general purpose financial statements of the state of Montana as of and for the fiscal year ended June 30, 2001, and have issued our report thereon dated January 4, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the state of Montana's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance, which we have reported to the management of the state of Montana during the course of our audit work.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the state of Montana's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the state of Montana's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions noted are described below:

1. We identified several issues at the Montana Department of Public Health and Human Services and Department of Environmental Quality related to fiscal control and accountability. These issues could have been prevented, or detected and corrected in a timely manner, if the agencies had an efficient and effective financial management control structure in place.
2. Montana Department of Public Health and Human Services personnel did not reconcile some of its automated data processing subsystems to the primary accounting system. The department's financial records may be misstated and thus misleading to users and federal reports could be misstated.
3. The Department of Administration is responsible for reconciling activity in all bank accounts for the State of Montana. The state converted to a new accounting system in fiscal year 2000. Since the conversion, the department has been unable to reconcile bank activity to the accounting records. The ability to promptly reconcile bank records to the accounting records is a key control which management needs to ensure the accounting records accurately reflect the cash balances.
4. The Department of Environmental Quality receives checks and currency as payment for environmental impact statement studies, licenses and permits, and fines. One employee is responsible for custody of the collections, updating accounts receivable on the database, preparing the required accounting system transactions and the treasury deposit ticket, and making the deposit. No one person should perform all these functions. An effective system of internal controls will provide reasonable assurance the collections and deposit procedures are properly performed.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider the reportable condition related to fiscal control and accountability at Montana Department of Public Health and Human Services to be a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to the management of the state of Montana during the course of our audit work.

This report is intended for the information and use of the Legislative Audit Committee, state of Montana management, the Montana State Legislature, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Respectfully submitted,



James Gillett, CPA  
Deputy Legislative Auditor

January 4, 2002

**FY00 Financial Section**

**Auditor's Report & Findings**

**Corrective Action Plan**

**Summary Schedule of Prior  
Audit Findings**

FY01 Financial Section

FY00 Financial Section



## FY00 Financial Section

### Table of Contents

Independent Auditor's Report .....	Page B-1
General Purpose Financial Statements .....	Page B-4
Independent Auditor's Report on the Schedule of Expenditures of Federal Awards .....	Page B-73
Schedule of Expenditures of Federal Awards .....	Page B-75
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of General Purpose Financial Statements Performed In Accordance With <i>Government Auditing Standards</i> .....	Page B-111



# LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor  
John W. Northey, Legal Counsel  
Tori Hunthausen, IT & Operations Manager



Deputy Legislative Auditors:  
Jim Pellegrini, Performance Audit  
James Gillett, Financial-Compliance Audit

## INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying Combined Balance Sheet All Fund Types, Account Groups and Discretely Presented Component Units; Combining Balance Sheet - Component Units - Proprietary Fund Types; Combining Statement of Plan Net Assets - Component Units - Pension Trust Funds; and Combining Balance Sheet - Component Units - All Higher Education Funds of the state of Montana as of June 30, 2000; the related Combined Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Fund Types and Expendable Trust Funds; Combined Statement of Revenues, Expenditures, Other Financing Sources (Uses) and Reconciliation of Budget and Actual (Budgetary Basis) to GAAP Basis - Unreserved Fund Balance - General and Special Revenue Fund Types; Combined Statement of Revenues, Expenses and Changes in Retained Earnings/Fund Balances - All Proprietary Fund Types, Similar Trust Funds and Discretely Presented Component Units; Combining Statement of Revenues, Expenses and Changes in Retained Earnings - Component Units - Proprietary Fund Types; Statement of Changes in Plan Net Assets - Investment Trust Fund; Combining Statement of Changes in Plan Net Assets - Component Units - Pension Trust Funds; Statement of Changes in Fund Balance - Component Units - All Higher Education Funds; Statement of Current Funds Revenues, Expenditures, Transfers and Other Changes - Component Units - Higher Education Fund Type; and the related Combined Statement of Cash Flows - All Proprietary Fund Types, Nonexpendable Trust Funds and Discretely Presented Component Units and Combining Statement of Cash Flows - Component Units - Proprietary Fund Types for the year then ended. These general purpose financial statements are the responsibility of the state of Montana's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the Montana State Lottery, which statements reflect total assets of 7.97 percent, liabilities of 10.01 percent, and total revenues/transfers-in and expenses/transfers-out of 28.08 percent and 30.38 percent, respectively, in the Enterprise Fund. This financial activity was audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Montana State Lottery, is based solely upon the report of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

Auditor's Report & Findings

Corrective Action Plan

Summary Schedule of Prior Audit Findings

In our opinion, based upon our audit and the report of the other auditors, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the state of Montana as of June 30, 2000, and the results of its operations, the cash flows of its proprietary and nonexpendable trust fund types and discretely presented component units, the changes in plan net assets of the investment trust fund and its component unit pension trust funds, and the changes in fund balance and current funds revenues, expenditures, transfers and other changes of the component unit higher education funds for the year then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we will issue our report dated March 19, 2001, on our consideration of the state of Montana's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit. It will be included in the state's Single Audit Report.

Respectfully submitted,



James Gillett, CPA  
Deputy Legislative Auditor

March 19, 2001

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STATE OF MONTANA  
 COMBINED BALANCE SHEET  
 ALL FUND TYPES, ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNITS  
 June 30, 2000  
 (Expressed in Thousands)

Assets/Other Debits	Governmental Fund Types				Proprietary Fund Types	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service
Assets:						
Cash/Cash Equivalents (Note 4)	\$ 134,027	\$ 248,873	\$ 31,001	\$ 53,740	\$ 18,379	\$ 19,179
Receivables (Net of Uncollectibles)	91,006	76,463	1,356	1,030	16,115	1,731
Interfund Loans Receivable (Note 13)	70,418	25,254	-	-	313	137
Due from Other Governments	6,702	128,672	-	-	-	5
Due from Primary Government (Note 13)	-	-	-	-	-	-
Due from Component Units (Note 13)	774	955	-	45	79	964
Due from Other Funds (Note 13)	33,871	17,754	100	1,007	767	7,986
Inventories	3,703	28,074	-	-	6,589	822
Equity in Pooled Investments (Note 4)	-	123,879	-	-	-	-
Long-Term Loans/Notes Receivable	-	79,430	33,250	-	57,581	-
Advances to Other Funds (Note 13)	-	615	-	-	-	-
Investments (Note 4)	-	97,822	4,165	-	10,244	26,613
Securities Lending Collateral (Note 4)	-	22,513	1,674	2	1,735	1,219
Land	-	-	-	-	800	236
Buildings/Improvements	-	-	-	-	5,873	-
Equipment	-	-	-	-	6,727	136,307
Other Fixed Assets	-	-	-	-	1,147	-
Construction in Progress	-	-	-	-	-	5,257
Accumulated Depreciation	-	-	-	-	(6,491)	(75,911)
Intangible Assets	-	-	-	-	1,132	490
Deferred Charges	-	-	-	-	851	-
Other Assets	8,354	2,550	-	16	2,216	219
Other Debits:						
Amount Available - Debt Service Funds	-	-	-	-	-	-
Resources to be Provided in Future Years	-	-	-	-	-	-
Total Assets/Other Debits	\$ 348,855	\$ 852,854	\$ 71,546	\$ 55,840	\$ 124,057	\$ 125,254

The notes to the financial statements are an integral part of this statement.

Fiduciary Fund Types		Account Groups		Component Units									
		General Fixed Assets	General Long-Term Obligations	Special Revenue	Trust and Agency	Proprietary Fund Types	Pension Trust Funds	Higher Education Funds					
\$	845,338	\$	-	\$	1	\$	2,110	\$	42,713	\$	127,492	\$	94,764
	107,261		-		-		411		30,279		31,794		57,434
	409		-		-		-		-		-		26,515
	75		-		-		-		-		-		6,390
	-		-		-		502		14		11,560		2,453
	315		-		-		-		-		-		-
	20,267		-		-		40		488		633		28,332
	-		-		-		-		27		-		3,827
	910,336		-		-		63,184		-		5,182,697		3,566
	2,882		-		-	1,500	-		547,427		636		-
	30		-		-		-		-		-		230
	145,890		-		-		135,232		709,800		524,084		3,906
	138,620		-		-		9,553		106,432		407,076		296
	51,260		66,267		-		-		-		60		13,728
	-		386,289		-		-		-		435		526,955
	-		64,479		-		-		2,744		152		111,224
	-		65,159		-		-		-		-		91,274
	-		67,516		-		-		-		-		30,388
	-		-		-		-		(1,508)		(399)		-
	-		-		-		-		7,375		2,666		3,477
	-		-		-		-		6,754		-		2,150
	18,273		-		-		-		581		-		6,484
	-		-		44,416		-		-		-		-
	-		-		390,080		-		-		-		-
\$	2,240,956	\$	649,710	\$	434,496	1,501	211,032	\$	1,453,126	\$	6,288,886	\$	1,013,393

(Continued on Next Page)

STATE OF MONTANA  
 COMBINED BALANCE SHEET - Continued  
 ALL FUND TYPES, ACCOUNT GROUPS AND DISCRETELY PRESENTED COMPONENT UNITS  
 June 30, 2000  
 (Expressed in Thousands)

Liabilities/Equity/Other Credits	Governmental Fund Types				Proprietary Fund Types	
	General	Special Revenue	Debt Service	Capital Projects	Enterprise	Internal Service
<b>Liabilities:</b>						
Accounts Payable	\$ 99,135	\$ 140,004	\$ 1,085	\$ 3,706	\$ 5,477	\$ 6,748
Lottery Prizes Payable	-	-	-	-	2,964	-
Interfund Loans Payable (Note 13)	-	90,433	-	1,666	305	2,283
Advances from Other Funds (Note 13)	-	196	-	-	-	-
Due to Other Governments	-	5,549	-	-	46	-
Due to Primary Government (Note 13)	-	-	-	-	-	-
Due to Component Units (Note 13)	11,501	2,003	-	20	9	37
Due to Other Funds (Note 13)	15,507	27,876	745	3,002	10,620	2,231
Deferred Revenue	35,231	30,654	-	-	2,703	248
Lease/Installment Purchase Payable (Note 11)	-	-	-	-	-	2,870
Bonds/Notes Payable (Net) (Note 12)	-	-	-	-	68,784	6,007
Property Held in Trust	241	1,327	-	117	97	40
Securities Lending Liability (Note 4)	-	22,513	1,674	2	1,735	1,219
Compensated Absences Payable (Note 1)	-	-	-	-	736	4,204
Estimated Insurance Claims (Note 9)	-	-	-	-	2,736	34,697
Early Retirement Benefits Payable (Note 12)	-	-	-	-	-	-
Arbitrage Rebate Tax Payable	-	-	-	-	213	-
Other Liabilities	456	47	-	-	-	286
Total Liabilities	162,071	320,602	3,504	8,513	96,425	60,870
<b>Equity/Other Credits:</b>						
Investment in General Fixed/Plant Assets	-	-	-	-	-	-
Contributed Capital (Note 17)	-	-	-	-	4,927	12,244
<b>Retained Earnings:</b>						
Reserved for Debt Service	-	-	-	-	-	-
Unreserved	-	-	-	-	22,705	52,140
<b>Fund Balances:</b>						
Reserved for Encumbrances	7,081	41,328	-	912	-	-
Reserved for Inventories	3,703	23,255	-	-	-	-
Reserved for Long-Term Loans	-	79,430	33,250	-	-	-
Reserved for Long-Term Advances (Note 13)	-	615	-	-	-	-
Reserved for Debt Service	-	-	6,248	-	-	-
Reserved for Trusts/Endowments (Note 15)	-	6,622	-	-	-	-
Reserved for Construction	-	-	-	-	-	-
Reserved for Pool Participants	-	-	-	-	-	-
Reserved for Employee Pension Benefits	-	-	-	-	-	-
Unreserved, Designated (Note 1)	30,000	175	28,544	-	-	-
Unreserved, Undesignated	146,000	380,827	-	46,415	-	-
Total Equity/Other Credits	186,784	532,252	68,042	47,327	27,632	64,384
Total Liabilities/Equity/Other Credits	\$ 348,855	\$ 852,854	\$ 71,546	\$ 55,840	\$ 124,057	\$ 125,254

The notes to the financial statements are an integral part of this statement.



Fiduciary Fund Types		Account Groups		Component Units				
Trust and Agency		General Fixed Assets	General Long-Term Obligations	Special Revenue	Trust and Agency	Proprietary Fund Types	Pension Trust Fund	Higher Education Funds
\$ 11,505	\$ -	\$ -	\$ -	\$ -	7 \$	7,691 \$	1,538 \$	14,592
-	-	-	-	-	-	-	-	-
142	-	-	-	-	2,150	-	-	26,515
-	-	-	-	-	-	-	-	231
-	-	-	-	-	-	-	(1)	5,487
-	-	-	-	-	-	820	68	2,244
960	-	-	-	-	-	-	-	-
21,534	-	-	-	-	20	936	259	28,515
29	-	-	-	-	-	15,249	215	10,084
-	-	-	3,001	-	-	42	2,159	1,386
-	-	-	374,623	-	-	622,576	430	223,578
246,292	-	-	-	-	-	1,000	11	4,880
138,620	-	-	-	-	9,553	106,432	407,075	296
-	-	-	55,620	-	-	1,062	260	33,897
-	-	-	-	-	-	432,845	-	-
-	-	-	227	-	-	-	-	38
-	-	-	1,025	-	-	227	-	-
2,371	-	-	-	-	-	-	-	-
421,453	-	-	434,496	-	11,730	1,188,880	412,014	351,743
-	649,710	-	-	-	-	-	-	554,399
-	-	-	-	-	-	154,468	-	-
-	-	-	-	-	-	104,489	-	-
-	-	-	-	-	-	5,289	-	-
-	-	-	-	-	-	-	-	900
2,875	-	-	-	1,501	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	1,047
1,138,716	-	-	-	-	199,302	-	-	36,349
-	-	-	-	-	-	-	-	6,207
481,727	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	5,876,872	-
196,185	-	-	-	-	-	-	-	62,748
1,819,503	649,710	-	-	1,501	199,302	264,246	5,876,872	661,650
\$ 2,240,956	\$ 649,710	\$ 434,496	1,501	211,032	\$ 1,453,126	\$ 6,288,886	\$ 1,013,393	

STATE OF MONTANA  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
 ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS  
 For the Fiscal Year Ended June 30, 2000  
 (Expressed in Thousands)

	Governmental Fund Types			
	General	Special Revenue	Debt Service	Capital Projects
<b>Revenues:</b>				
Licenses/Permits	\$ 29,030	\$ 96,752	\$ -	-
Taxes				
Natural Resource	23,800	38,057	301	3,788
Individual Income	514,142	-	-	-
Corporate Income	90,940	8,406	-	-
Property	192,687	8,496	-	-
Fuel	-	189,247	-	-
Other (Note 1)	103,082	69,839	-	1,837
Charges for Services/Fines/Forfeits/Settlements	62,854	237,749	1,346	73
Investment Earnings	15,953	15,035	5,948	844
Securities Lending Income	3,344	1,478	129	40
Sale of Documents/Merchandise/Property	1,584	5,473	2,601	-
Rentals/Leases/Royalties	64	423	-	-
Contributions/Premiums	-	5,301	-	-
Grants/Contracts/Donations	1,887	12,074	-	-
Federal	14,955	1,063,372	128	-
Federal Indirect Cost Recoveries	70	2,021	-	-
Other Revenues	702	1,944	-	-
<b>Total Revenues</b>	<b>1,055,094</b>	<b>1,755,667</b>	<b>10,453</b>	<b>6,582</b>
Intrafund Revenues	(726)	(5,933)	-	-
<b>Net Revenues</b>	<b>1,054,368</b>	<b>1,749,734</b>	<b>10,453</b>	<b>6,582</b>
<b>Expenditures:</b>				
Current				
General Government	77,064	66,111	51	11,106
Public Safety/Corrections	117,444	83,129	-	3,220
Transportation	-	417	-	-
Health/Social Services	234,880	654,600	-	-
Education/Cultural	504,002	118,103	-	-
Resource Development/Recreation	20,317	66,807	1	18
Economic Development/Assistance	17,496	106,047	-	360
Debt Service				
Principal Retirement	685	2,672	28,604	-
Interest/Fiscal Charges	85	396	16,894	5
Capital Outlay	3,592	32,835	-	39,959
Securities Lending	3,208	1,424	125	38
<b>Total Expenditures</b>	<b>979,190</b>	<b>1,573,918</b>	<b>45,675</b>	<b>54,706</b>
Intrafund Expenditures	(726)	(5,933)	-	-
<b>Net Expenditures</b>	<b>978,464</b>	<b>1,567,985</b>	<b>45,675</b>	<b>54,706</b>
<b>Excess of Revenue Over (Under) Expenditures</b>	<b>75,904</b>	<b>181,749</b>	<b>(35,222)</b>	<b>(48,124)</b>
<b>Other Financing Sources (Uses):</b>				
Loan Proceeds	320	1,383	-	-
Bond Proceeds	-	7,609	35	35,195
Inception of Lease/Installment Contract	378	469	-	-
General Fixed Asset Sale Proceeds	41	31	-	-
Operating Transfers In (Note 13)	107,270	45,876	33,966	10,069
Transfers from Component Units (Note 13)	-	582	11	-
Operating Transfers Out (Note 13)	(15,577)	(49,265)	(1,451)	(4,444)
Transfers to Component Units (Note 13)	(110,608)	(14,879)	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>(18,176)</b>	<b>(8,194)</b>	<b>32,561</b>	<b>40,820</b>
<b>Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses</b>	<b>57,728</b>	<b>173,555</b>	<b>(2,661)</b>	<b>(7,304)</b>
<b>Fund Balances - July 1 - As Previously Reported</b>	<b>130,025</b>	<b>356,021</b>	<b>70,751</b>	<b>54,631</b>
<b>Prior Period Adjustments (Note 3)</b>	<b>(1,716)</b>	<b>(593)</b>	<b>(21)</b>	<b>-</b>
<b>Fund Balances - July 1 - As Restated</b>	<b>128,309</b>	<b>355,428</b>	<b>70,730</b>	<b>54,631</b>
Increase (Decrease) in Inventories	519	540	-	-
Residual Equity Transfers (Note 13)	228	2,729	(27)	-
<b>Fund Balances - June 30</b>	<b>\$ 186,784</b>	<b>\$ 532,252</b>	<b>\$ 68,042</b>	<b>\$ 47,327</b>

The notes to the financial statements are an integral part of this statement

Fiduciary Fund Type	Component Unit Governmental Fund Types		
	Expendable Trust	Special Revenue	Expendable Trust
\$	-	\$	-
	-	-	-
	-	-	-
	-	-	-
	-	-	-
	-	-	371
	-	-	-
	12,187	1	14,744
	167	-	553
	26	-	-
	-	-	-
	61,016	-	12,294
	879	1,500	-
	4,070	-	-
	-	-	-
	-	-	-
	78,347	1,501	27,962
	-	-	-
	78,347	1,501	27,962
	20	-	8,067
	-	-	-
	288	-	-
	-	-	-
	144	-	-
	417	-	-
	59,468	-	-
	-	-	-
	-	-	-
	-	-	-
	31	-	-
	160	-	536
	60,528	-	8,603
	-	-	-
	60,528	-	8,603
	17,819	1,501	19,359
	-	-	-
	-	-	-
	-	-	-
	2,365	-	-
	-	-	-
	(351)	-	-
	-	-	-
	2,014	-	-
	19,833	1,501	19,359
	171,216	-	179,924
	8,638	-	17
	179,854	-	179,941
	-	-	-
	(627)	-	1
\$	199,060	1,501	199,301

STATE OF MONTANA  
 COMBINED STATEMENT OF REVENUES, EXPENDITURES, OTHER FINANCING SOURCES (USES) AND  
 RECONCILIATION OF BUDGET AND ACTUAL (BUDGETARY BASIS) TO GAAP BASIS - UNRESERVED FUND BALANCE  
 GENERAL AND SPECIAL REVENUE FUND TYPES  
 For the Fiscal Year Ended June 30, 2000  
 (Expressed in Thousands)

	General Fund			Special Revenue Funds		
	Budget	Actual	Variance - Favorable (Unfavorable)	Budget	Actual	Variance - Favorable (Unfavorable)
<b>Revenues:</b>						
Licenses/Permits	\$ 26,579	\$ 29,043	\$ 2,464	\$ 96,580	\$ 97,054	\$ 474
Taxes						
Natural Resource	13,763	18,843	5,080	53,604	21,533	(32,271)
Individual Income	475,637	525,942	50,305	-	-	-
Corporate Income	95,101	91,366	(3,735)	8,892	8,406	(486)
Property	208,873	193,268	(15,605)	8,535	8,496	(39)
Fuel	-	-	-	180,893	170,677	(10,216)
Payroll	-	-	-	-	-	-
Other	111,162	99,996	(12,166)	68,106	69,791	1,685
Charges for Services/Fines/Forfeits/Settlements	41,829	62,572	20,743	93,133	81,092	(12,041)
Investment Earnings	20,641	15,953	(4,688)	7,234	6,644	(590)
Sale of Documents/Merchandise/Property	251	1,588	1,337	6,497	5,479	(1,018)
Rentals/Leases/Royalties	91	46	(43)	261	412	151
Contributions/Premiums	-	-	-	9,299	5,301	(3,998)
Grants/Contracts/Donations	1,497	1,813	316	14,899	7,696	(7,203)
Federal	18,742	16,167	(2,575)	1,194,291	1,014,992	(179,299)
Federal Indirect Cost Recoveries	79	59	(20)	1,477	1,999	522
Other Revenues	547	229	(318)	2,451	1,371	(1,080)
<b>Total Revenues</b>	<b>1,014,792</b>	<b>1,055,887</b>	<b>41,095</b>	<b>1,746,352</b>	<b>1,500,943</b>	<b>(245,409)</b>
<b>Expenditures:</b>						
Current						
General Government	86,990	77,031	9,959	83,132	71,406	11,726
Public Safety/Corrections	120,501	118,335	2,166	134,233	83,446	50,787
Transportation	424	421	3	490,425	428,232	62,193
Health/Social Services	244,466	235,638	8,828	726,116	599,292	126,824
Education/Cultural	524,767	504,209	20,558	202,965	118,967	83,998
Resource Development/Recreation	22,747	22,502	245	96,936	64,040	32,896
Economic Development/Assistance	24,951	18,036	6,915	141,945	98,992	42,953
Debt Service						
Principal Retirement	4,167	668	3,519	2,526	2,711	(185)
Interest/Fiscal Charges	85	85	-	398	398	-
Capital Outlay	2,155	2,341	(186)	35,530	32,406	3,124
<b>Total Expenditures</b>	<b>1,031,273</b>	<b>979,266</b>	<b>52,007</b>	<b>1,914,206</b>	<b>1,499,890</b>	<b>414,316</b>
<b>Excess of Revenues Over (Under) Expenditures</b>	<b>(16,481)</b>	<b>76,621</b>	<b>93,102</b>	<b>(167,854)</b>	<b>1,053</b>	<b>168,907</b>
<b>Other Financing Sources (Uses):</b>						
Loan Proceeds	-	320	320	1,009	1,383	374
Bond Proceeds	500	-	(500)	-	6,546	6,546
General Fixed Asset Sale Proceeds	223	41	(182)	56	31	(25)
Operating Transfers In	98,722	101,081	2,359	63,834	39,874	(23,960)
Operating Transfers Out	(19,736)	(11,832)	7,904	(61,169)	(46,255)	14,914
Transfers to Component Units	(110,112)	(110,608)	(496)	(14,879)	(14,879)	-
<b>Total Other Financing Sources (Uses)</b>	<b>(30,403)</b>	<b>(20,998)</b>	<b>9,405</b>	<b>(11,149)</b>	<b>(13,300)</b>	<b>(2,151)</b>
<b>Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses (Budgetary Basis)</b>	<b>(46,884)</b>	<b>55,623</b>	<b>102,507</b>	<b>(179,003)</b>	<b>(12,247)</b>	<b>166,756</b>
<b>Reconciliation of Budgetary/GAAP Reporting:</b>						
1 Adjust Expenditures for Encumbrances	-	4,602	4,602	-	(19,833)	(19,833)
2 Adjustments for Nonbudgeted Activity	-	(2,633)	(2,633)	-	205,581	205,581
3 Intrafund Elimination - Revenues/Transfers In	-	(726)	(726)	-	(5,933)	(5,933)
4 Intrafund Elimination - Expenditures/Transfers Out	-	726	726	-	5,933	5,933
5 Securities Lending Income	-	3,344	3,344	-	1,478	1,478
6 Securities Lending Costs	-	(3,208)	(3,208)	-	(1,424)	(1,424)
<b>Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses (GAAP Basis)</b>	<b>(46,884)</b>	<b>57,728</b>	<b>104,612</b>	<b>(179,003)</b>	<b>173,555</b>	<b>352,558</b>
<b>Unreserved Fund Balances - July 1</b>		<b>114,237</b>			<b>229,394</b>	
Residual Equity Transfers (Note 13)	-	228	228	-	2,729	2,729
Prior Period Adjustments (Note 3)	-	(1,716)	(1,716)	-	(593)	(593)
Decrease (Increase)						
Encumbrances Reserve	-	(4,002)	(4,002)	-	(10,912)	(10,912)
Advances to Other Funds Reserve	-	9,525	9,525	-	(479)	(479)
Long-Term Loans Reserve	-	-	-	-	(23,208)	(23,208)
Trusts/Endowments/Fed Loans Reserve (Note 15)	-	-	-	-	10,516	10,516
<b>Unreserved Fund Balances - June 30</b>	<b>\$ (46,884)</b>	<b>\$ 176,000</b>	<b>\$ 108,647</b>	<b>\$ (179,003)</b>	<b>\$ 381,002</b>	<b>\$ 330,611</b>

The notes to the financial statements are an integral part of this statement

STATE OF MONTANA  
STATEMENT OF CHANGES IN PLAN NET ASSETS  
INVESTMENT TRUST FUND  
For the Fiscal Year Ended June 30, 2000  
(Expressed in Thousands)

	STIP Trust
<b>Additions:</b>	
Contributions	\$ 795,244
Net Investment Earnings:	
Investment Earnings	22,883
Securities Lending Income	1,188
Securities Lending Expense	(1,141)
Total Additions	818,174
<b>Deductions:</b>	
Local Government STIP Distributions	805,233
Net Increase (Decrease)	12,941
Net Assets Held in Trust for Pool Participants - July 1	468,786
Net Assets Held in Trust for Pool Participants - June 30	\$ 481,727

*The notes to the financial statements are an integral part of this statement.*

STATE OF MONTANA  
**COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS/FUND BALANCES**  
**ALL PROPRIETARY FUND TYPES, SIMILAR TRUST FUNDS AND DISCRETELY PRESENTED COMPONENT UNITS**  
 For the Fiscal Year Ended June 30, 2000  
 (Expressed in Thousands)

	Proprietary Fund Types		Fiduciary Fund Type		Component Units	
	Enterprise	Internal Service	Nonexpendable Trust		Proprietary Fund Types	
<b>Operating Revenues:</b>						
Charges for Services	\$ 82,358	\$ 86,810	\$ 10,554	\$	571	
Investment Earnings	1,163	1,813	39,976		33,712	
Securities Lending Income	116	321	8,207		5,825	
Financing Income	3,763	-	-		34,902	
Contributions/Premiums	8,294	87,962	-		70,657	
Grants/Contracts/Donations	16	-	13		-	
Taxes	11,861	2	17,940		1,893	
Rentals/Leases/Royalties	-	-	26,453		-	
Other Operating Revenues	212	2,768	33		33	
Total Operating Revenues	107,783	179,676	103,176		147,593	
Intrafund Revenues	-	(444)	-		-	
Net Operating Revenues	107,783	179,232	103,176		147,593	
<b>Operating Expenses:</b>						
Personal Services	6,289	32,261	-		10,668	
Contractual Services	6,284	14,777	4		8,460	
Supplies/Materials	36,291	16,222	-		414	
Benefits/Claims (Note 3)	8,358	101,075	-		69,749	
Depreciation	883	8,979	-		309	
Amortization	175	253	-		1,011	
Utilities/Rent	513	7,541	-		214	
Communications	989	11,083	-		875	
Travel	176	410	-		246	
Repair/Maintenance	423	5,637	-		598	
Grants	-	-	13		-	
Local Assistance	-	26	-		-	
Lottery Prize Payments	15,575	-	-		-	
Interest Expense	3,327	588	-		36,345	
Securities Lending Expense	111	301	7,951		5,647	
Arbitrage Rebate Tax	88	-	-		236	
Other Operating Expenses	806	1,850	5		8,726	
Total Operating Expenses	80,288	201,003	7,973		143,498	
Intrafund Expenses	-	(444)	-		-	
Net Operating Expenses	80,288	200,559	7,973		143,498	
Operating Income (Loss)	27,495	(21,327)	95,203		4,095	
<b>Nonoperating Revenues (Expenses):</b>						
Gain (Loss) Sale of Fixed Assets	(29)	21	-		(38)	
Increase (Decrease) Value of Livestock	(332)	-	-		-	
Federal Indirect Cost Recoveries	-	2,767	-		-	
Total Nonoperating Revenues (Expenses)	(361)	2,768	-		(38)	
Income (Loss) Before Operating Transfers	27,134	(18,539)	95,203		4,057	
Operating Transfers In (Note 13)	68	666	1,139		-	
Operating Transfers Out (Note 13)	(25,433)	(1,117)	(104,785)		-	
Operating Transfers to Component Units (Note 13)	-	-	(2,286)		-	
Net Income (Loss)	1,769	(18,990)	(10,729)		4,057	
Retained Earnings/Fund Balances - July 1						
As Previously Reported	27,661	69,352	1,143,393		105,697	
Prior Period Adjustments (Note 3)	50	1,778	6,052		24	
Retained Earnings/Fund Balances - July 1						
As Restated	27,711	71,130	1,149,445		105,721	
Residual Equity Transfers (Note 13)	(6,775)	-	-		-	
Retained Earnings/Fund Balances - June 30	\$ 22,705	\$ 52,140	\$ 1,138,716	\$	109,778	

The notes to the financial statements are an integral part of this statement.

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STATE OF MONTANA  
 COMBINED STATEMENT OF CASH FLOWS  
 ALL PROPRIETARY FUND TYPES, NONEXPENDABLE TRUST FUNDS AND DISCRETELY PRESENTED COMPONENT UNITS  
 For the Fiscal Year Ended June 30, 2000  
 (Expressed in Thousands)

	Proprietary Fund Types		Component Units	
	Enterprise	Internal Service	Nonexpendable Trust	Proprietary Fund Types
<b>Cash Flows from Operating Activities:</b>				
Receipts from Sales and Services	\$ 88,976	\$ 172,104	\$ 10,911	\$ 68,686
Collections of Principal and Interest on Loans	-	-	-	85,231
Cash Payments for Loans	-	-	-	(131,881)
Payments to Suppliers for Goods and Services	(42,950)	(55,117)	-	(19,376)
Payments to Employees	(6,249)	(31,057)	-	(10,492)
Grant Receipts	-	2,515	-	-
Grant Payments	-	(13)	(13)	-
Cash Payments for Claims	(7,929)	(91,230)	-	(70,109)
Collections of Notes Receivable	-	-	-	-
Collections of Payroll Taxes	-	-	-	3,028
Cash Payments for Prizes	(16,013)	-	-	-
Scholarship/Fellowship Payments	-	-	(5)	-
Other Operating Revenues	99	2,569	33	74
Other Operating Payments	-	-	-	-
Net Cash Provided by (Used for)				
Operating Activities	15,934	(229)	10,926	(74,839)
<b>Cash Flows from Noncapital Financing Activities:</b>				
Payment of Principal and Interest on Bonds and Notes	(6,499)	(2,385)	-	(97,337)
Proceeds from Issuance of Bonds and Notes	3,202	3,293	-	157,555
Payment of Bond Issuance Costs	-	-	-	(1,876)
Premium Paid on Refunding Bonds	-	-	-	(398)
Collection of Taxes	11,862	-	19,061	-
Transfers to Primary Government	-	-	-	(10,000)
Transfers to Other Funds	(27,132)	(1,792)	(103,938)	-
Transfers to Component Units	-	-	(2,286)	-
Transfers from Other Funds	68	913	1,139	-
Proceeds from Interfund Loans	438	2,257	4,987	-
Payment of Interfund Loans	(432)	(526)	(4,943)	-
Contributed Capital Transfers from Other Funds	-	4,342	-	-
Residual Equity Transfers to Other Funds	(1,375)	-	-	-
Net Cash Provided by (Used for)				
Noncapital Financing Activities	(19,868)	6,102	(85,980)	47,944
<b>Cash Flows from Capital and Related Financing Activities:</b>				
Acquisition of Fixed Assets	(302)	(15,957)	(1)	(1,786)
Proceeds from Sale of Fixed Assets	4	1,058	-	37
Principal and Interest Payments on Bonds and Notes	(1,146)	(2,358)	-	-
Net Cash Used for Capital and Related Financing Activities	(1,444)	(17,257)	(1)	(1,749)
<b>Cash Flow from Investing Activities:</b>				
Purchase of Investments	(4,802)	(9,645)	(53,050)	(705,938)
Proceeds from Sales or Maturities of Investments	4,457	16,215	33,377	686,395
Proceeds from Securities Lending Transactions	113	364	8,376	5,686
Interest and Dividends on Investments	1,118	3,989	75,962	48,706
Payment of Securities Lending Costs	(105)	(342)	(7,959)	(5,494)
Collections of Principal and Interest on Loans	21,271	-	-	(114)
Cash Payments for Loans	(21,628)	-	-	-
Arbitrage Rebate Tax	(45)	-	-	(111)
Collection of Rentals/Leases/Royalties	-	-	26,480	-
Net Cash Provided by (Used for)				
Investing Activities	379	10,581	83,186	29,130
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	(4,999)	(803)	8,131	486
Cash and Cash Equivalents, July 1	23,378	19,982	39,436	42,227
Cash and Cash Equivalents, June 30	\$ 18,379	\$ 19,179	\$ 47,567	\$ 42,713

The notes to the financial statements are an integral part of this statement.



	Proprietary Fund Types		Component Units	
	Enterprise	Internal Service	Nonexpendable Trust	Proprietary Fund Types
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>				
Operating Income (Loss)	\$ 27,495	\$ (21,327)	\$ 95,203	\$ 4,095
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by (Used for)</b>				
<b>Operating Activities:</b>				
Depreciation	883	8,979	-	309
Amortization	175	253	-	1,011
Taxes	(11,861)	-	(17,940)	-
Interest Expense	3,327	588	-	36,345
Securities Lending Expense	111	301	7,951	5,647
Interest on Investments	(1,163)	(1,813)	(39,976)	(33,712)
Securities Lending Income	(116)	(321)	(8,207)	(5,825)
Financing Income	(3,763)	-	-	-
Federal Indirect Cost Recoveries	-	2,767	-	-
Arbitrage Rebate Tax	88	-	-	236
Rentals/Leases/Royalties	-	-	(26,453)	-
Extraordinary Item (Legal Settlement)	-	-	-	-
<b>Change in Assets and Liabilities:</b>				
Decr (Incr) in Accounts Receivable	(888)	(1,086)	-	336
Decr (Incr) in Due from Other Governments	-	15	-	-
Decr (Incr) in Due from Other Funds	16	(2,384)	348	(184)
Decr (Incr) in Due from Primary Government	-	-	-	1,919
Decr (Incr) in Due from Component Units	49	1,106	-	-
Decr (Incr) in Inventories	264	46	-	6
Decr (Incr) in Intangible Assets	(6)	-	-	-
Decr (Incr) in Long-Term Loans/Notes Receivable	-	-	-	(81,283)
Incr (Decr) in Deferred Charges	-	-	-	101
Decr (Incr) in Other Assets	88	(23)	-	17
Incr (Decr) in Accounts Payable	351	2,311	-	48
Incr (Decr) in Lottery Prizes Payable	(394)	-	-	-
Incr (Decr) in Due to Other Funds	1,450	660	-	655
Incr (Decr) in Due to Other Governments	35	-	-	-
Incr (Decr) in Due to Primary Government	-	-	-	(7)
Incr (Decr) in Due to Component Units	4	(16)	-	-
Incr (Decr) in Non-Capital Leases Payable	-	505	-	-
Incr (Decr) in Deferred Revenue	(602)	(762)	-	(4,499)
Incr (Decr) in Property Held in Trust	(38)	4	-	576
Incr (Decr) in Compensated Absences Payable	(2)	866	-	89
Incr (Decr) in Estimated Insurance Claims	431	8,816	-	(719)
Incr (Decr) in Other Liabilities	-	286	-	-
<b>Net Cash Provided by (Used for)</b>				
Operating Activities	<u>\$ 15,934</u>	<u>\$ (229)</u>	<u>\$ 10,926</u>	<u>\$ (74,839)</u>
<b>Schedule of Noncash Transactions:</b>				
Fixed Asset Acquisitions from Capital Leases	\$ 23	\$ 888	\$ -	-
Asset Acquisitions from Contributed				
Capital Transfers from Other Funds	652	4,901	-	-
Asset Disposals from Contributed Capital	(138)	-	-	-
<b>Total Noncash Transactions</b>	<u>\$ 537</u>	<u>\$ 5,789</u>	<u>\$ -</u>	<u>-</u>
<b>Reconciliation for Nonexpendable Trust:</b>				
Cash and Cash Equivalents, June 30			\$ 47,567	
Cash and Cash Equivalents, Expendable Trust, Investment Trust and Agency			797,771	
Cash and Cash Equivalents per Combined Balance Sheet, Trust and Agency			<u>\$ 845,338</u>	

Auditor's Report & Findings

Corrective Action Plan

Summary Schedule of Prior  
Audit Findings

STATE OF MONTANA  
 COMBINING BALANCE SHEET  
 COMPONENT UNITS - PROPRIETARY FUND TYPES  
 June 30, 2000  
 (Expressed in Thousands)

	Housing Authority	Health Facilities Authority	State Compensation Insurance (New Fund)	State Compensation Insurance (Old Fund)	Totals
<b>Assets:</b>					
Cash/Cash Equivalents	\$ 3,022	\$ 779	\$ 29,932	\$ 8,980	\$ 42,713
Receivables (Net)	6,182	109	21,619	2,369	30,279
Due from Primary Government (Note 13)	-	-	3	11	14
Due from Other Funds (Note 13)	-	-	488	-	488
Inventories	-	-	27	-	27
Long-Term Loans/Notes Receivable	547,269	158	-	-	547,427
Investments (Note 4)	170,061	929	412,432	126,378	709,800
Securities Lending Collateral (Note 4)	-	935	100,180	5,317	106,432
Equipment	82	4	2,658	-	2,744
Accumulated Depreciation	(26)	(2)	(1,480)	-	(1,508)
Intangible Assets	147	-	7,228	-	7,375
Deferred Charges	6,754	-	-	-	6,754
Other Assets	29	-	536	16	581
<b>Total Assets</b>	<b>\$ 733,520</b>	<b>\$ 2,912</b>	<b>\$ 573,623</b>	<b>\$ 143,071</b>	<b>\$ 1,453,126</b>
<b>Liabilities/Fund Equity:</b>					
<b>Liabilities:</b>					
Accounts Payable	\$ 6,132	\$ 6	\$ 1,523	\$ 30	\$ 7,691
Due to Primary Government (Note 13)	19	1	798	2	820
Due to Other Funds (Note 13)	27	6	405	498	936
Deferred Revenue	-	-	14,593	656	15,249
Lease/Installment Purchase Payable (Note 11)	-	-	42	-	42
Bonds/Notes Payable (Net) (Note 12)	622,576	-	-	-	622,576
Property Held in Trust	2	-	998	-	1,000
Securities Lending Liability (Note 4)	-	935	100,180	5,317	106,432
Compensated Absences Payable	48	24	927	63	1,062
Estimated Insurance Claims (Note 9)	-	-	314,900	117,945	432,845
Arbitrage Rebate Tax Payable	227	-	-	-	227
<b>Total Liabilities</b>	<b>629,031</b>	<b>972</b>	<b>434,366</b>	<b>124,511</b>	<b>1,188,880</b>
<b>Fund Equity:</b>					
Contributed Capital (Note 17)	-	-	-	154,468	154,468
Retained Earnings:					
Reserved for Debt Service	104,489	-	-	-	104,489
Unreserved	-	1,940	139,257	(135,908)	5,289
<b>Total Fund Equity</b>	<b>104,489</b>	<b>1,940</b>	<b>139,257</b>	<b>18,560</b>	<b>264,246</b>
<b>Total Liabilities/Fund Equity</b>	<b>\$ 733,520</b>	<b>\$ 2,912</b>	<b>\$ 573,623</b>	<b>\$ 143,071</b>	<b>\$ 1,453,126</b>

The notes to the financial statements are an integral part of this statement.

STATE OF MONTANA  
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS  
COMPONENT UNITS - PROPRIETARY FUND TYPES  
For the Fiscal Year Ended June 30, 2000  
(Expressed in Thousands)

	Housing Authority	Health Facilities Authority	State Compensation Insurance (New Fund)	State Compensation Insurance (Old Fund)	Totals
<b>Operating Revenues:</b>					
Charges for Services	\$ 267	\$ 282	\$ 22	\$ -	\$ 571
Investment Earnings	9,697	96	18,787	5,132	33,712
Securities Lending Income	4	40	5,371	410	5,825
Financing Income	34,902	-	-	-	34,902
Contributions/Premiums	-	-	70,657	-	70,657
Payroll Taxes	-	-	1	1,892	1,893
Other Operating Revenues	5	-	28	-	33
<b>Total Operating Revenues</b>	<b>44,875</b>	<b>418</b>	<b>94,866</b>	<b>7,434</b>	<b>147,593</b>
<b>Operating Expenses:</b>					
Personal Services	569	111	9,988	-	10,668
Contractual Services	2,441	19	4,854	1,146	8,460
Supplies/Materials	42	19	353	-	414
Benefits/Claims (Note 3)	-	-	68,447	1,302	69,749
Depreciation	7	-	302	-	309
Amortization	24	-	987	-	1,011
Utilities/Rent	43	11	160	-	214
Communications	32	9	834	-	875
Travel	70	21	155	-	246
Repair/Maintenance	61	3	534	-	598
Interest Expense	36,345	-	-	-	36,345
Securities Lending Expense	4	40	5,207	396	5,647
Arbitrage Rebate Tax	236	-	-	-	236
Dividends	-	-	-	-	-
Other Operating Expenses	158	19	8,142	407	8,726
<b>Total Operating Expenses</b>	<b>40,032</b>	<b>252</b>	<b>99,963</b>	<b>3,251</b>	<b>143,498</b>
<b>Operating Income (Loss)</b>	<b>4,843</b>	<b>166</b>	<b>(5,097)</b>	<b>4,183</b>	<b>4,095</b>
<b>Nonoperating Revenues (Expenses):</b>					
Gain (Loss) Sale of Fixed Assets	-	-	(38)	-	(38)
<b>Total Nonoperating Revenues (Expenses)</b>	<b>-</b>	<b>-</b>	<b>(38)</b>	<b>-</b>	<b>(38)</b>
<b>Income (Loss) Before Operating Transfers</b>	<b>4,843</b>	<b>166</b>	<b>(5,135)</b>	<b>4,183</b>	<b>4,057</b>
<b>Net Income (Loss)</b>	<b>4,843</b>	<b>166</b>	<b>(5,135)</b>	<b>4,183</b>	<b>4,057</b>
<b>Retained Earnings - July 1 -</b>					
As Previously Reported	99,646	1,774	144,368	(140,091)	105,697
Prior Period Adjustments (Note 3)	-	-	24	-	24
<b>Retained Earnings - July 1 -</b>	<b>99,646</b>	<b>1,774</b>	<b>144,392</b>	<b>(140,091)</b>	<b>105,721</b>
<b>Retained Earnings - June 30</b>	<b>\$ 104,489</b>	<b>\$ 1,940</b>	<b>\$ 139,257</b>	<b>\$ (135,908)</b>	<b>\$ 109,776</b>

The notes to the financial statements are an integral part of this statement.

Auditor's Report & Findings

Corrective Action Plan

Summary Schedule of Prior Audit Findings

STATE OF MONTANA  
 COMBINING STATEMENT OF CASH FLOWS  
 COMPONENT UNITS - PROPRIETARY FUND TYPES  
 For the Fiscal Year Ended June 30, 2000  
 (Expressed in Thousands)

	Housing Authority	Health Facilities Authority	State Compensation Insurance (New Fund)	State Compensation Insurance (Old Fund)	Totals
<b>Cash Flows from Operating Activities:</b>					
Receipts from Sales and Services	\$ 109	\$ 285	\$ 68,362	\$ (70)	\$ 68,686
Collections of Principal and Interest on Loans	85,231	-	-	-	85,231
Cash Payments for Loans	(131,881)	-	-	-	(131,881)
Payments to Suppliers for Goods and Services	(2,648)	(102)	(15,370)	(1,256)	(19,376)
Payments to Employees	(561)	(112)	(9,819)	-	(10,492)
Cash Payments for Claims	-	-	(56,657)	(13,452)	(70,109)
Collection of Notes Receivable	-	-	-	-	-
Collection of Payroll Taxes	-	-	-	3,028	3,028
Other Operating Revenues	26	-	48	-	74
Other Operating Payments	-	-	-	-	-
Net Cash Provided by (Used for)					
Operating Activities	(49,724)	71	(13,436)	(11,750)	(74,839)
<b>Cash Flows from Noncapital</b>					
<b>Financing Activities:</b>					
Payment of Principal and Interest on Bonds and Notes	(97,337)	-	-	-	(97,337)
Proceeds from Issuance of Bonds and Notes	157,555	-	-	-	157,555
Payment of Bond Issuance Costs	(1,876)	-	-	-	(1,876)
Premium Paid on Refunding Bonds	(398)	-	-	-	(398)
Transfers to Primary Government	-	-	(10,000)	-	(10,000)
Net Cash Provided by (Used for)					
Noncapital Financing Activities	57,944	-	(10,000)	-	47,944
<b>Cash Flows from Capital and Related</b>					
<b>Financing Activities:</b>					
Acquisition of Fixed Assets	(118)	-	(1,668)	-	(1,786)
Proceeds from Sale of Fixed Assets	-	-	37	-	37
Net Cash Used for Capital and					
Related Financing Activities	(118)	-	(1,631)	-	(1,749)
<b>Cash Flows from Investing Activities:</b>					
Purchase of Investments	(632,597)	(297)	(59,710)	(13,334)	(705,938)
Proceeds from Sales or Maturities of Investments	611,252	297	58,085	16,761	686,395
Proceeds from Securities Lending Transactions	4	38	5,232	412	5,686
Interest and Dividends on Investments	9,439	97	30,552	8,618	48,706
Payment of Securities Lending Costs	(4)	(37)	(5,056)	(397)	(5,494)
Collections of Principal and Interest on Loans	-	(114)	-	-	(114)
Arbitrage Rebate Tax	(111)	-	-	-	(111)
Net Cash Provided by (Used for)					
Investing Activities	(12,017)	(16)	29,103	12,060	29,130
<b>Net Increase (Decrease) in Cash</b>					
<b>and Cash Equivalents</b>	(3,915)	55	4,036	310	486
Cash and Cash Equivalents, July 1	6,937	724	25,896	8,670	42,227
Cash and Cash Equivalents, June 30	\$ 3,022	\$ 779	\$ 29,932	\$ 8,980	\$ 42,713

The notes to the financial statements are an integral part of this statement.

	Housing Authority	Health Facilities Authority	State Compensation Insurance (New Fund)	State Compensation Insurance (Old Fund)	Totals
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:					
Operating Income (Loss)	\$ 4,843	\$ 166	\$ (5,097)	\$ 4,183	\$ 4,095
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used for)					
Operating Activities:					
Depreciation	7	-	302	-	309
Amortization	24	-	987	-	1,011
Interest Expense	36,345	-	-	-	36,345
Securities Lending Expense	4	40	5,207	396	5,647
Interest on Investments	(9,697)	(96)	(18,787)	(5,132)	(33,712)
Securities Lending Income	(4)	(40)	(5,371)	(410)	(5,825)
Arbitrage Rebate Tax	236	-	-	-	236
Change in Assets and Liabilities:					
Decr (Incr) in Accounts Receivable	2	(112)	60	386	336
Decr (Incr) in Due from Other Funds	-	-	(185)	1	(184)
Decr (Incr) in Due from Primary Government	-	-	1,501	418	1,919
Decr (Incr) in Inventories	-	-	6	-	6
Decr (Incr) in Long-Term Loans/Notes Receivable	(81,399)	116	-	-	(81,283)
Incr (Decr) in Deferred Charges	101	-	-	-	101
Decr (Incr) in Other Assets	(316)	1	224	108	17
Incr (Decr) in Accounts Payable	115	(2)	(46)	(19)	48
Incr (Decr) in Due to Other Funds	26	5	404	220	655
Incr (Decr) in Due to Primary Government	(16)	(4)	17	(4)	(7)
Incr (Decr) in Deferred Revenue	-	-	(4,721)	222	(4,499)
Incr (Decr) in Property Held in Trust	(3)	(1)	580	-	576
Incr (Decr) in Compensated Absences Payable	8	(2)	83	-	89
Incr (Decr) in Estimated Insurance Claims	-	-	11,400	(12,119)	(719)
Net Cash Provided by (Used for)					
Operating Activities	\$ (49,724)	\$ 71	\$ (13,436)	\$ (11,750)	\$ (74,839)

STATE OF MONTANA  
 COMBINING STATEMENT OF PLAN NET ASSETS  
 COMPONENT UNITS - PENSION TRUST FUNDS  
 June 30, 2000  
 (Expressed in Thousands)

	Public Employees Retirement Division			
	TRS	PERS	Municipal Police	Fire-Fighters Unified
<b>Assets:</b>				
Cash/Cash Equivalents (Note 4)	\$ 38,605	\$ 67,954	\$ 3,868	\$ 4,577
Receivables (Net):				
Employer Contributions	6,054	1,786	212	173
Employee Contributions	6,381	1,968	142	123
Interest	5,912	7,222	295	277
Other Receivables	2	264	-	-
Due from Primary Government (Note 13)	133	27	5,909	5,278
Due from Other Funds (Note 13)	167	390	39	22
Long-Term Notes/Loans Receivable	-	528	-	-
Investments at Fair Value:				
Equity in Pooled Investments (Note 4)	2,095,349	2,577,576	117,916	112,526
Other Investments (Note 4)	231,323	275,542	3,826	2,870
Securities Lending Collateral (Note 4)	164,092	202,136	9,363	8,645
Land	35	25	-	-
Buildings/Improvements	158	277	-	-
Equipment	137	15	-	-
Accumulated Depreciation	(203)	(196)	-	-
Intangible Assets	2,666	-	-	-
<b>Total Assets</b>	<b>\$ 2,550,811</b>	<b>\$ 3,135,514</b>	<b>\$ 141,570</b>	<b>\$ 134,491</b>
<b>Liabilities:</b>				
Accounts Payable	\$ 126	\$ 1,357	\$ -	\$ -
Due to Primary Government (Note 13)	25	43	-	-
Due to Other Governments	(1)	-	-	-
Due to Other Funds (Note 13)	30	68	37	30
Deferred Revenue	-	193	3	9
Lease/Installment Purchase Payable (Note 11)	2,159	-	-	-
Bonds/Notes Payable (Net) (Note 12)	-	430	-	-
Property Held in Trust	11	-	-	-
Securities Lending Liability (Note 4)	164,092	202,135	9,363	8,645
Compensated Absences Payable (Note 1)	68	192	-	-
<b>Total Liabilities</b>	<b>166,510</b>	<b>204,418</b>	<b>9,403</b>	<b>8,684</b>
<b>Fund Balances Reserved for</b>				
Employee Pension Benefits	<b>\$ 2,384,301</b>	<b>\$ 2,931,096</b>	<b>\$ 132,167</b>	<b>\$ 125,807</b>

The notes to the financial statements are an integral part of this statement.

Sheriffs	Highway Patrol	Judges	Game Wardens	Volunteer Fire-Fighters	Totals
\$ 5,677	\$ 2,362	\$ 997	\$ 2,324	\$ 1,128	127,492
141	-	-	-	-	8,366
147	-	-	-	-	8,761
297	168	102	75	48	14,396
-	-	-	5	-	271
-	213	-	-	-	11,560
-	7	-	8	-	633
108	-	-	-	-	636
119,319	73,915	40,042	30,261	15,793	5,182,697
3,826	2,870	1,913	957	524,084	
9,432	6,029	3,347	2,383	1,649	407,076
-	-	-	-	-	60
-	-	-	-	-	435
-	-	-	-	-	152
-	-	-	-	-	(399)
-	-	-	-	-	2,666
\$ 138,947	\$ 85,564	\$ 46,401	\$ 36,013	\$ 19,575	6,288,886
\$ 2	\$ 22	\$ -	\$ 31	\$ -	1,538
-	-	-	-	-	68
-	-	-	-	-	(1)
29	15	3	19	28	259
2	6	-	2	-	215
-	-	-	-	-	2,159
-	-	-	-	-	430
-	-	-	-	-	11
9,432	6,029	3,347	2,383	1,649	407,075
-	-	-	-	-	260
9,465	6,072	3,350	2,435	1,677	412,014
\$ 129,482	\$ 79,492	\$ 43,051	\$ 33,578	\$ 17,898	5,876,872

STATE OF MONTANA  
 COMBINING STATEMENT OF CHANGES IN PLAN NET ASSETS  
 COMPONENT UNITS - PENSION TRUST FUNDS  
 For the Fiscal Year Ended June 30, 2000  
 (Expressed in Thousands)

	Public Employees Retirement Division			
	TRS	PERS	Municipal Police	Fire-Fighters Unified
<b>Additions:</b>				
Contributions/Premiums:				
Employer	\$ 48,376	\$ 52,102	\$ 8,845	\$ 7,603
Employee	45,599	51,081	1,937	1,698
Other Contributions	147	51	1	-
Net Investment Earnings:				
Investment Earnings	177,095	217,452	8,132	7,644
Administrative Investment Expense	(2,219)	(2,702)	(78)	(64)
Securities Lending Income	8,807	10,895	508	472
Securities Lending Expense	(8,449)	(10,452)	(489)	(455)
Other Additions	22	61	-	-
<b>Total Additions</b>	<b>269,378</b>	<b>318,488</b>	<b>18,856</b>	<b>16,898</b>
<b>Deductions:</b>				
Benefits	109,231	96,015	8,653	7,518
Refunds	5,271	12,431	315	45
Administrative Expenses:				
Personal Services	560	968	-	-
Contractual Services	199	613	-	-
Supplies/Materials	44	57	-	-
Depreciation	17	13	-	-
Amortization	236	-	-	-
Utilities/Rent	32	62	-	-
Communications	32	72	-	-
Travel	27	31	-	-
Repair/Maintenance	16	4	-	-
Interest Expense	122	1	-	-
Other Operating Expenses	8	-	37	30
Local Assistance	-	-	-	-
<b>Total Deductions</b>	<b>115,795</b>	<b>110,267</b>	<b>9,005</b>	<b>7,593</b>
<b>Net Increase (Decrease)</b>	<b>153,583</b>	<b>208,221</b>	<b>9,851</b>	<b>9,305</b>
<b>Fund Balances Reserved for Employee</b>				
Pension Benefits - July 1 -				
As Previously Reported	2,230,718	2,722,875	122,316	116,502
<b>Fund Balances Reserved for Employee</b>				
Pension Benefits - July 1 -				
As Restated	2,230,718	2,722,875	122,316	116,502
<b>Fund Balances Reserved for Employee</b>				
Pension Benefits - June 30	\$ 2,384,301	\$ 2,931,096	\$ 132,167	\$ 125,807

The notes to the financial statements are an integral part of this statement.



	Sheriffs	Highway Patrol	Judges	Game Wardens	Volunteer Fire-Fighters	Totals
\$	2,196	\$ 2,837	\$ 899	\$ 1,100	\$ 961	124,919
	2,153	668	244	1,072	-	104,452
	17	-	-	6	-	222
	8,281	5,151	2,879	2,120	1,090	429,844
	(78)	(55)	(34)	(20)	(15)	(5,265)
	514	333	181	131	89	21,930
	(494)	(320)	(174)	(126)	(86)	(21,045)
	-	-	-	-	-	83
	12,589	8,614	3,995	4,283	2,039	655,140
	2,929	4,396	1,380	1,211	844	232,177
	276	168	-	131	-	18,637
	-	-	-	-	-	1,528
	-	-	-	-	-	812
	-	-	-	-	-	101
	-	-	-	-	-	30
	-	-	-	-	-	236
	-	-	-	-	-	94
	-	-	-	-	-	104
	-	-	-	-	-	58
	-	-	-	-	-	20
	-	-	-	-	-	123
	29	15	3	19	27	168
	-	-	-	-	11	11
	3,234	4,579	1,383	1,361	882	254,099
	9,355	4,035	2,612	2,922	1,157	401,041
	120,127	75,457	40,439	30,656	16,741	5,475,831
	120,127	75,457	40,439	30,656	16,741	5,475,831
\$	129,482	\$ 79,492	\$ 43,051	\$ 33,578	\$ 17,898	\$ 5,876,872

STATE OF MONTANA  
COMBINING BALANCE SHEET  
COMPONENT UNITS - ALL HIGHER EDUCATION FUNDS  
June 30, 2000  
(Expressed in Thousands)

Current Funds					
Unrestricted					
	General Operating		Designated	Auxiliary	Restricted
Assets:					
Cash/Cash Equivalents	\$	9,407	\$	18,079	\$ 15,887 \$ 4,575
Receivables (Net)		5,861		729	897 20,235
Interfund Loans Receivable (Note 13)		7,530		14,608	50 2,200
Due from Other Governments		-		7	- 6,335
Due from Primary Government (Note 13)		236		136	- 1,050
Due from Other Funds (Note 13)		1,350		3,111	463 1,092
Inventories		81		1,393	2,353 -
Equity in Pooled Investments (Note 4)		-		-	- -
Advances to Other Funds		-		68	5 -
Investments (Note 4)		-		124	- -
Securities Lending Collateral (Note 4)		-		1	1 -
Land		-		-	- -
Buildings/Improvements		-		-	- -
Equipment		-		-	- -
Other Fixed Assets		-		-	- -
Construction in Progress		-		-	- -
Intangible Assets		-		-	- -
Deferred Charges		-		-	- -
Other Assets		3,721		1,895	291 315
Total Assets	\$	28,187	\$	40,151	\$ 19,947 \$ 35,802
Liabilities/Fund Balances:					
Liabilities:					
Accounts Payable	\$	3,020	\$	2,381	\$ 1,332 \$ 1,284
Interfund Loans Payable (Note 13)		1,600		-	208 15,191
Advances from Other Funds		5		63	89 5
Due to Other Governments		1,771		1	- 10
Due to Primary Government (Note 13)		640		442	14 4
Due to Other Funds (Note 13)		13,030		2,152	1,612 6,517
Deferred Revenue		6,775		1,857	812 -
Lease/Installment Purchase Payable (Note 11)		-		-	- -
Bonds/Notes Payable (Note 12)		-		-	- -
Property Held in Trust		136		198	515 151
Securities Lending Liability (Note 4)		-		1	1 -
Early Retirement Benefits Payable (Note 12)		36		-	2 -
Compensated Absences Payable (Note 1)		25,092		6,230	2,201 369
Total Liabilities		52,105		13,325	6,786 23,531
Fund Balances:					
Net Investment in Plant		-		-	- -
Reserved for:					
Encumbrances		611		99	36 67
Debt Service		-		-	- -
Student Loans/Endowments		-		-	- -
Construction		-		-	- -
Unreserved		(24,529)		26,727	13,125 12,204
Total Fund Balances		(23,918)		26,826	13,161 12,271
Total Liabilities/Fund Balances	\$	28,187	\$	40,151	\$ 19,947 \$ 35,802

The notes to the financial statements are an integral part of this statement.

Fiduciary Funds				Plant Funds				
Student Loans	Endowments	Agency	Unexpended	Renewal and Replacement	Retirement of Indebtedness	Investment in Plant	Totals	
\$ 2,926	\$ 1,997	\$ 3,111	\$ 20,605	\$ 13,501	\$ 4,676	\$ -	\$ 94,764	
29,547	12	(105)	129	41	88	-	57,434	
-	-	-	2,052	25	50	-	26,515	
47	-	-	-	-	-	-	6,390	
121	-	891	140	-	-	-	2,453	
-	-	18,322	556	1,749	1,568	-	28,332	
364	3,202	-	-	-	-	-	3,827	
-	-	-	29	-	-	-	3,566	
-	1,424	-	-	39	89	-	230	
7	284	1	1	2,358	-	-	3,906	
-	-	-	-	1	-	-	296	
-	-	-	-	-	-	13,728	13,728	
-	-	-	-	-	-	526,955	526,955	
-	-	-	-	-	-	111,224	111,224	
-	-	-	-	-	-	91,274	91,274	
-	-	-	15,183	2,105	-	13,100	30,388	
-	-	-	-	-	-	3,477	3,477	
-	-	-	-	-	2,150	-	2,150	
-	-	250	12	-	-	-	6,484	
<b>\$ 33,012</b>	<b>\$ 6,919</b>	<b>\$ 22,470</b>	<b>\$ 38,707</b>	<b>\$ 19,819</b>	<b>\$ 8,621</b>	<b>\$ 759,758</b>	<b>1,013,393</b>	
\$ 6	\$ -	\$ 3,519	\$ 1,186	\$ 271	\$ 1,593	\$ -	\$ 14,592	
-	-	7,250	2,225	41	-	-	26,515	
-	-	-	-	-	-	69	231	
-	-	3,705	-	-	-	-	5,487	
-	-	993	49	102	-	-	2,244	
7	-	3,132	1,192	335	538	-	26,515	
-	-	-	290	101	249	-	10,084	
-	-	-	-	-	-	1,386	1,386	
-	-	-	17,493	-	2,181	203,904	223,578	
10	-	3,870	-	-	-	-	4,880	
7	284	1	1	1	-	-	296	
-	-	-	-	-	-	-	38	
-	-	-	5	-	-	-	33,897	
<b>30</b>	<b>284</b>	<b>22,470</b>	<b>22,441</b>	<b>851</b>	<b>4,561</b>	<b>205,359</b>	<b>351,743</b>	
-	-	-	-	-	-	554,399	554,399	
-	-	-	87	-	-	-	900	
-	-	-	-	-	1,047	-	1,047	
31,422	4,927	-	-	-	-	-	36,349	
1,560	1,708	-	4,889	1,318	-	-	6,207	
-	-	-	11,290	17,650	3,013	-	62,748	
<b>32,982</b>	<b>6,635</b>	<b>-</b>	<b>16,266</b>	<b>18,968</b>	<b>4,060</b>	<b>554,399</b>	<b>661,650</b>	
<b>\$ 33,012</b>	<b>\$ 6,919</b>	<b>\$ 22,470</b>	<b>\$ 38,707</b>	<b>\$ 19,819</b>	<b>\$ 8,621</b>	<b>\$ 759,758</b>	<b>\$ 1,013,393</b>	

STATE OF MONTANA  
STATEMENT OF CHANGES IN FUND BALANCE  
COMPONENT UNITS - ALL HIGHER EDUCATION FUNDS  
For the Fiscal Year Ended June 30, 2000  
(Expressed in Thousands)

FY01 Financial Section

FY00 Financial Section

Current Funds				
Unrestricted				
General Operating	Designated	Auxiliary	Restricted	
<b>Revenues/Other Additions:</b>				
Tuition/Fees	\$ 107,895	\$ 18,050	\$ 10,016	169
Federal Grants/Contracts	4,469	109	27	123,170
State Grants/Contracts	-	1,620	118	6,792
Local Grants/Contracts	-	46	-	804
Private Gifts/Grants/Donations	-	1,182	56	35,499
Sales/Services-Educational Activities	1,152	2,680	33	203
Sales/Services-Designated/Auxiliary Enterprises	2	15,427	55,637	277
Indirect Costs Recovered	55	13,630	-	53
Investment Earnings	2,091	1,107	1,345	380
Securities Lending Income	12	68	5	1
Acquisition of Long-Lived Assets	-	-	-	-
Retirement of Indebtedness	-	-	-	-
Other Revenues/Additions	1,145	5,165	1,463	761
Total Revenues/Other Additions	116,821	59,084	68,700	168,109
Intrafund Revenues/Other Additions	(27)	(161)	-	(818)
Net Revenues/Other Additions	116,794	58,923	68,700	167,291
<b>Expenditures/Other Deductions:</b>				
Instruction	120,309	7,291	-	9,174
Research	12,599	12,049	-	65,464
Public Service	7,427	6,725	1	15,741
Academic Support	20,959	895	-	3,172
Student Services	18,613	14,325	7	3,721
Institutional Support	19,401	6,880	-	2,706
Scholarships/Fellowships	9,359	2,082	42	59,695
Auxiliary Enterprises	-	60	56,005	142
Operation/Maintenance of Plant	25,164	2,499	-	97
Expended for Plant	4	8	-	49
Debt Services	1,956	267	58	4
Capital Outlay	5,207	1,864	235	5,227
Securities Lending	12	66	5	1
Disposal of Long-Lived Assets	-	-	-	-
Debt Incurred	-	-	-	-
Other Expenditures/Deductions	32	56	1	257
Total Expenditures/Other Deductions	241,042	55,067	56,354	165,450
Intrafund Expenditures/Other Deductions	(27)	(161)	-	(818)
Net Expenditures/Other Deductions	241,015	54,906	56,354	164,632
<b>Transfers In (Out)/Other Additions (Deductions):</b>				
Transfers from State General Fund	110,608	-	-	-
Millage Transfers	14,809	-	-	-
Mandatory Transfers	634	(1,725)	(9,236)	-
Nonmandatory Transfers	(1,180)	2,770	(1,106)	442
Transfers from Primary Government	-	-	261	-
Transfers to Primary Government	(582)	-	-	-
Gain on Advance Refunding	-	-	-	-
Total Transfers In (Out) (Note 13)	124,289	1,045	(10,081)	442
Move Equity to Investment in Plant	-	-	-	-
Bond Proceeds	-	380	-	3
Total Transfers In (Out)/Other Additions (Deductions)	124,289	1,425	(10,081)	445
Net Increase (Decrease) in Fund Balances	68	5,442	2,265	3,104
Fund Balances - July 1 - As Previously Reported	(23,986)	21,208	10,896	9,143
Prior Period Adjustments (Note 3)	-	47	-	24
Fund Balances - July 1 - As Restated	(23,986)	21,255	10,896	9,167
Residual Equity Transfers (Note 13)	-	129	-	-
Fund Balances - June 30	\$ (23,918)	\$ 26,826	\$ 13,161	\$ 12,271

The notes to the financial statements are an integral part of this statement

Fiduciary Funds			Plant Funds		
Student Loans	Endowments	Unexpended	Renewal and Replacement	Retirement of Indebtedness	Investment in Plant
\$ - \$	- \$	4,878 \$	696 \$	5,735 \$	-
467	-	-	-	23	-
303	-	-	12	-	-
-	-	-	-	-	-
13	11	2,089	38	-	-
-	-	21	-	-	-
14	-	93	73	1,103	-
-	-	-	-	-	-
156	61	1,843	811	445	-
2	18	6	8	-	-
-	-	-	-	-	26,219
-	-	-	-	-	68,905
804	-	1,893	2,056	384	-
1,759	90	10,823	3,694	7,690	95,124
-	-	-	-	-	-
1,759	90	10,823	3,694	7,690	95,124
-	-	-	-	-	-
-	-	-	-	-	-
24	-	-	-	-	-
32	-	-	16	-	-
-	-	-	-	-	-
-	1	-	-	-	-
-	-	-	-	-	-
-	-	7,400	5,940	7	-
-	-	376	16	78,808	-
-	-	3,935	1,771	30	-
2	18	6	8	-	-
-	-	-	-	-	28,905
-	-	-	-	-	60,916
415	-	-	11	-	-
473	19	11,717	7,762	78,845	89,821
-	-	-	-	-	-
473	19	11,717	7,762	78,845	89,821
-	-	-	-	-	-
-	-	-	-	-	-
-	-	(3,563)	(205)	14,403	-
(5)	36	(1,354)	5,200	(4,107)	-
-	-	995	70	1,030	-
-	-	-	-	(11)	-
-	-	-	-	2,309	-
(5)	36	(3,922)	5,065	13,624	-
-	-	5,445	170	2,477	(23,226)
-	-	-	-	56,482	-
(5)	36	1,523	5,235	72,583	(23,226)
1,281	107	629	1,167	1,428	(17,923)
31,701	6,528	14,979	19,488	2,998	572,322
-	-	309	(1,338)	(366)	-
31,701	6,528	15,288	18,150	2,632	572,322
-	-	349	(349)	-	-
\$ 32,982 \$	6,635 \$	16,266 \$	18,968 \$	4,060 \$	554,399

STATE OF MONTANA  
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, TRANSFERS AND OTHER CHANGES  
COMPONENT UNITS - HIGHER EDUCATION FUND TYPE  
For the Fiscal Year Ended June 30, 2000  
(Expressed in Thousands)

	Current Funds			
	Unrestricted			
	General Operating	Designated	Auxiliary	Restricted
<b>Revenues:</b>				
Tuition/Fees	\$ 107,895	\$ 18,050	\$ 10,016	\$ 169
Federal Grants/Contracts	4,469	109	27	110,839
State Grants/Contracts	-	1,620	118	6,529
Local Grants/Contracts	-	46	-	804
Private Gifts/Grants/Donations	-	1,182	56	31,861
Sales/Services-Educational Activities	1,152	2,680	33	203
Sales/Services-Designated/Auxiliary Enterprises	2	15,427	55,637	277
Indirect Costs Recovered	55	13,630	-	53
Investment Earnings	2,091	1,107	1,345	380
Securities Lending Income	12	68	5	1
Other Revenues	1,145	5,165	1,463	761
<b>Total Revenues</b>	<b>116,821</b>	<b>59,084</b>	<b>68,700</b>	<b>151,877</b>
Intrafund Revenues	(27)	(161)	-	(818)
<b>Net Revenues</b>	<b>116,794</b>	<b>58,923</b>	<b>68,700</b>	<b>151,059</b>
<b>Expenditures:</b>				
Educational and General:				
Instruction	120,309	7,291	-	8,456
Research	12,599	12,049	-	54,152
Public Service	7,427	6,725	1	14,676
Academic Support	20,959	895	-	3,168
Student Services	18,613	14,325	7	3,637
Institutional Support	19,401	6,880	-	2,339
Scholarships/Fellowships	9,359	2,082	42	59,672
Operation/Maintenance of Plant	25,164	2,499	-	97
Other Expenditures	32	56	1	257
<b>Total Educational and General Expenditures</b>	<b>233,863</b>	<b>52,802</b>	<b>51</b>	<b>146,454</b>
Intrafund Expenditures	(27)	(161)	-	(818)
<b>Net Educational and General Expenditures</b>	<b>233,836</b>	<b>52,641</b>	<b>51</b>	<b>145,636</b>
Auxiliary Enterprises	-	60	56,005	142
Debt Services	1,956	267	58	4
Capital Outlay	5,211	1,872	235	5,276
Securities Lending	12	66	5	1
<b>Total Expenditures</b>	<b>241,015</b>	<b>54,906</b>	<b>56,354</b>	<b>151,059</b>
<b>Transfers In (Out):</b>				
Transfers from State General Fund	110,608	-	-	-
Millage Transfers	14,809	-	-	-
Mandatory Transfers	634	(1,725)	(9,236)	-
Nonmandatory Transfers	(1,180)	2,770	(1,106)	442
Transfers from Primary Government	-	-	261	-
Transfers to Primary Government	(582)	-	-	-
<b>Total Transfers In (Out) (Note 13)</b>	<b>124,289</b>	<b>1,045</b>	<b>(10,081)</b>	<b>442</b>
<b>Other Additions/(Deductions):</b>				
Bond Proceeds	-	380	-	3
Excess of Restricted Receipts Over Transfers to Revenue	-	-	-	2,659
<b>Total Other Additions (Deductions)</b>	<b>-</b>	<b>380</b>	<b>-</b>	<b>2,662</b>
<b>Net Increase (Decrease) in Fund Balances</b>	<b>\$ 68</b>	<b>\$ 5,442</b>	<b>\$ 2,265</b>	<b>\$ 3,104</b>

The notes to the financial statements are an integral part of this statement.

## STATE OF MONTANA

### NOTES TO THE FINANCIAL STATEMENTS

June 30, 2000

#### **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements for the State of Montana have been prepared in accordance with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB). The financial statements of the Higher Education Funds have been prepared in conformity with GAAP for colleges and universities as prescribed by the American Institute of Certified Public Accountants.

**A. Reporting Entity** - For financial reporting purposes, the State of Montana has included all funds and account groups which comprise the State of Montana (the primary government) and its component units. The component units are entities for which the State is financially accountable, or whose relationship with the State is such that exclusion would cause the State's financial statements to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the State to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the State.

#### **Discrete Component Units**

These component units are entities which are legally separate from the State because they possess corporate powers, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. Complete financial statements of the individual component units, which issue separate financial statements, can be obtained from their respective administrative offices. The component units' columns of the combined financial statements include the financial data of these entities:

**Housing Authority** (Proprietary Fund Type/State Special Revenue Fund Type) - This Authority, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor. It was created in 1975 to facilitate the availability of decent, safe and sanitary housing to persons and families of lower income. The Board issues negotiable notes and bonds to fulfill its purposes. The total amount of notes and bonds outstanding at any time may not exceed \$975 million. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. The Authority is audited annually by the Legislative Auditor. Its report is issued under separate cover and available at 836 Front Street, PO Box 200528, Helena, MT 59620-0528.

**Health Facilities Authority** (Proprietary Fund Type) - This Authority, which is a legally separate entity, is governed by a quasi-judicial board appointed by the Governor with the advice and consent of the Senate. Its purpose is to contain future health care costs by offering debt financing or refinancing at reduced rates to Montana non-profit private and public health care institutions for purchases of capital equipment and buildings. The Board issues revenue bonds to fulfill its purpose. Neither the faith and credit nor taxing power of the State of Montana may be pledged for the amounts so issued. Individual audit reports are issued by the Legislative Auditor every two years. Its report is issued under separate cover and available at 2401 Colonial Drive, 3<sup>rd</sup> Floor, PO Box 200506, Helena, MT 59620-0506.

**State Compensation Insurance Fund (New and Old)** (Proprietary Fund Type) - The Fund is a quasi-governmental corporation governed by a board appointed by the Governor. The Fund provides workers compensation insurance. The Fund consists of two separate entities, the New Fund and the Old Fund. The New Fund covers claims incurred after June 30, 1990, and is financed by member (employer) premiums. The Old Fund covers claims incurred before July 1, 1990. In 1999, the 56th Legislature determined that the Old Fund was adequately funded and discontinued the Old Fund Liability Tax. Administrative operations and budgets are reviewed by the Governor and the legislature. The Fund is audited annually by the Legislative Auditor. Its report is issued under separate cover and available at 5 South Last Chance Gulch, Helena, MT 59601.

**Teachers Retirement System** (Pension Trust Fund) - This retirement system is a legally separate entity with a board appointed by the Governor. Its purpose is to provide retirement, disability, death and lump sum payments to members of Montana's public teaching profession. The administrative costs of the Teachers Retirement System are paid from investment earnings of the Fund. The System is funded from employer and employee contributions and investment earnings. The system is audited annually by the Legislative Auditor. Its report is issued under separate cover and is available at 1500 Sixth Avenue, PO Box 200139, Helena, MT 59620-0139.

**Public Employees Retirement Board** (Pension Trust Funds/Expendable Trust Funds) - The Board, appointed by the Governor, administers eight separate retirement systems for the purpose of providing retirement, disability, death and lump sum payments to each system member. These legally separate entities include the Public Employees, the Municipal Police Officers, the Game Wardens and Peace Officers, the Sheriffs, the Judges, the Highway Patrol

Officers and the Firefighters Unified Retirement Systems, as well as the Volunteer Firefighters Compensation Act. As of July 1, 1999, the Board also administers the State of Montana Deferred Compensation Program.

The Public Employees Retirement System (PERS) is funded from employer and employee contributions and investment earnings. The PERS also accounts for the administrative costs, paid from investment earnings, of the system. The Municipal Police Officers Retirement System is funded from member, state and city contributions. The Game Wardens and Peace Officers Retirement System is funded by employer and employee contributions. The Sheriffs Retirement System is funded by member and county contributions. The Judges Retirement System is funded by member and state contributions. The Highway Patrol Officers Retirement System is funded by member and state contributions. The Firefighters Unified Retirement System is funded by employer and employee contributions as well as a portion of insurance premium taxes collected by the State. The Volunteer Firefighters Compensation Act is funded by contributions by the State of a percentage of fire insurance premium taxes collected. The State of Montana Deferred Compensation Program is funded from member contributions.

The Board is a discretely presented component unit Pension Trust Fund for the eight separate retirement systems and an Expendable Trust Fund for the Deferred Compensation Program that is audited annually by the Legislative Audit Division. Its report is issued under separate cover and is available at 100 N Park, PO Box 200131, Helena, MT 59620-0131.

Universities and Colleges (Higher Education Funds) - The State Board of Regents has responsibility for the following institutions: University of Montana-Missoula and the units under it including Montana Tech of the University of Montana, Western Montana College of the University of Montana and the Helena College of Technology; and Montana State University-Bozeman and the units under it including Montana State University-Billings, Montana State University-Northern, and the Great Falls College of Technology. All units are funded through state appropriations, tuition, federal grants, and private donations and grants. Individual audit reports are issued by the Legislative Auditor every two years. The reports are issued under separate cover and are available at the Presidents Office on each of the campuses or by contacting the Commissioner of Higher Education, 2500 Broadway, PO Box 203101, Helena, MT 59620.

Though the following organizations perform functions related to the higher education units, they are not considered part of Montana's reporting entity: (1) Community Colleges which are considered part of local units of government; (2) the Montana Higher Education Student Assistance Corporation, a private non-profit corporation, and (3) private foundations supporting public education, over which the State exercises neither financial nor administrative control (see Note 18). Entities such as local school districts and local authorities of various kinds are considered part of local units of government and have not been included. The State's support of local public education systems is reported in the General Fund.

**B. Fund Structure** - The State uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

The financial activities of the State of Montana are classified into fund categories and account groups as described below:

#### **GOVERNMENTAL FUNDS**

General Fund - To account for all governmental financial resources except those required to be accounted for in another fund.

Special Revenue Funds - To account for the proceeds of specific revenue sources restricted to expenditure for specified purposes (other than expendable trusts or major capital projects).

Debt Service Funds - To account for resources accumulated for payment of principal and interest on general long-term obligation debt.

Capital Projects Funds - To account for resources used for the acquisition or construction of major capital facilities (other than those financed by proprietary or trust funds).

#### **PROPRIETARY FUNDS**

Enterprise Funds - To account for operations (1) financed and operated similar to private business enterprises, where the intent of the legislature is to finance or recover costs primarily through user charges; or (2) where the legislature has decided periodic determination of revenue earned, expenses incurred, or net income is appropriate.



**Internal Service Funds** - To account for the financing of goods and services provided by one department or agency to other departments, agencies or other governmental entities on a cost-reimbursement basis.

#### **FIDUCIARY FUNDS**

**Trust and Agency Funds** - To account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governments or other funds. These include: (1) Expendable Trust Funds; (2) Nonexpendable Trust Funds; (3) Pension Trust Funds; (4) Agency Funds, and (5) Investment Trust Funds.

#### **ACCOUNT GROUPS**

**General Fixed Assets Account Group** - To account for all fixed assets of the State, except those accounted for in the Proprietary, Nonexpendable Trust, Pension Trust and Plant Funds.

**General Long-Term Obligations Account Group** - To account for all long-term obligations of the State, except those accounted for in Proprietary, Nonexpendable Trust, Pension Trust and Plant Funds.

#### **HIGHER EDUCATION (UNIVERSITY AND COLLEGE) FUNDS**

##### **Current Funds**

###### **Unrestricted**

**General Operating** - To account for the portion of financial resources that can be expended for general operations and is free of externally imposed restrictions, except those imposed by the legislature.

**Designated** - To account for those resources associated with general operations which are separately classified in order to accumulate costs recharged to other funds and to identify special activities of educational departments which are supported by supplemental assessments and the receipt and disposition of special supply and facility fees which are approved for collection beyond normal course fees.

**Auxiliary** - To account for those financial resources devoted to providing essential on-campus services primarily to students, faculty or staff where a fee relating to the service is charged.

**Restricted** - To account for the portion of financial resources that can be expended only for purposes imposed by sources external to the Board of Regents and the legislature.

##### **Fiduciary Funds**

**Student Loans** - To account for monies, which may be loaned, to students, faculty or staff for purposes related to education, organized research or public services by the higher education units.

**Endowments** - To account for monies where the principal is available for investment. Investment earnings are to be transferred to (or recorded directly in) appropriate operating funds pursuant to prevailing administrative requirements.

**Agency** - To account for monies where the State acts in the capacity of a custodian or fiscal agent for individual students, faculty, staff or qualified organizations.

##### **Plant Funds**

**Unexpended** - To account for unexpended resources derived from various sources which are used to finance the acquisition/construction of plant assets and the associated liabilities.

**Renewal and Replacement** - To account for resources used to provide for the renewal and replacement of plant fund assets as distinguished from additions and improvements.

**Retirement of Indebtedness** - To account for resources accumulated for interest and principal payments and other debt service charges, including contributions to reserves, relating to plant fund indebtedness.

**Investment in Plant** - To account for all long-lived assets in the service of the higher education unit as well as all associated liabilities.

**C. Basis of Accounting** - The accounting and reporting treatment applied to a fund is determined by its measurement focus. All Governmental Funds and Expendable Trust Funds are accounted for on a current financial resources measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is followed in the Governmental Funds, Expendable Trust Funds and in the Agency Funds for the purpose of asset and liability recognition. Under the modified accrual basis, revenues are susceptible to accrual and recognized when they are measurable and available to pay current period liabilities. Intergovernmental revenues received as reimbursements are recognized based upon the expenditures incurred. Intergovernmental revenues received but not earned are recorded as deferred revenues. All other revenue including

taxes on coal sales, gas and oil production, individual income and other self-assessed taxes is considered available if due within 60 days of fiscal year-end. Based on historical analysis, a liability has been recognized for collected withholding taxes to be refunded in fiscal year 2001. Expenditures are recognized when the related fund liability is incurred, with the following exceptions:

- (1) principal and interest on long-term debt is recognized when due;
- (2) prepayments are accounted for as expenditures in the period of acquisition; and
- (3) inventory items are considered expenditures when purchased.

All Proprietary, Pension Trust, Investment Trust and Nonexpendable Trust Funds are accounted for on an economic resources measurement focus. This means all assets and liabilities associated with these activities are included on their balance sheets. Operating statements for these funds present increases (revenues) and decreases (expenses) in net total assets.

Proprietary, Pension Trust, Investment Trust, Nonexpendable Trust and Higher Education Funds are maintained and reported on the accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable. In Higher Education Funds, depreciation expense related to plant fund assets is not recorded; summer session student tuition and fee revenues and expenditures are deferred at June 30 and recorded as revenue and expenditures in the succeeding fiscal year. Unbilled receivables of Proprietary and Higher Education Funds are recognized as revenue.

Significant intrafund transactions and balances have been eliminated.

**D. Proprietary Activity Accounting and Financial Reporting** - Activities accounted for in the States proprietary, non-expendable trust and pension trust funds and proprietary type component units follow GAAP prescribed by the GASB and all Financial Accounting Standards Boards standards issued on or before November 30, 1989. Subsequent to this date, the State accounts for these activities as prescribed by the GASB.

**E. Cash/Cash Equivalents** - For all funds, except the Housing Authority in the Component Unit Proprietary Funds, cash and cash equivalents consist of funds deposited by individual funds in the State Treasurers pooled cash account, cash deposits in checking accounts, cash invested in the Short Term Investment Pool, undeposited cash held by individual state agencies, and investments categorized as cash equivalents, which are short-term, highly liquid investments with original maturities of three months or less. The Housing Authority considers cash and cash equivalents to be cash held by the State Treasurer, other cash deposits, and mortgage payments in transit (See Note 4).

**F. Receivables** - This classification, net of estimated uncollectibles, consists primarily of receivables for goods sold and services provided; short-term loans and notes; interest and dividends; taxes due within 60 days of fiscal year-end; and income, withholding and inheritance taxes that are past due. An allowance for uncollectible taxes is provided based upon historical analysis. The allowance for uncollectible taxes at June 30, 2000, was \$10.6 million.

**G. Inventories** - Inventories of materials and supplies are stated at cost. The State allows agencies to use any generally accepted inventory pricing method, but specifies the first-in, first-out method should be appropriate for most agencies.

Governmental and Expendable Trust Funds use the "purchase method," meaning inventory purchases are recorded as expenditures. At fiscal year-end, significant amounts of inventory are shown as a reserve of fund balance, indicating they do not constitute available expendable resources. An exception is the Special Revenue Fund food stamp inventory balance, which is offset by deferred revenue.

Proprietary, Pension Trust, Nonexpendable Trust, Investment Trust and Higher Education Funds report using the "consumption method," meaning inventories are expensed as used.

**H. Investments** - In accordance with the Montana Constitution and the statutorily mandated "Prudent Expert Rule," the State of Montana invests in various types of securities for each portfolio it manages. Certain securities including asset-backed securities, variable-rate instruments, zero coupon bonds, preferred stocks, and mortgage-backed securities are purchased for portfolio diversification and a competitive rate of return. Most investments are reported at fair value in the balance sheet. Investments are reported by type in the disclosure of custodial credit risk for each investment portfolio (See Note 4 on Cash/Cash Equivalents and Investments).

**I. Equity in Pooled Investments** - The Montana Board of Investments manages the States Unified Investment Program which includes five internal investment pools. Participation in the pools is limited to Expendable Trust Funds; including the Deferred Compensation Plan, Nonexpendable Trust Funds, Pension Trust Funds, Higher Education Endowment and Trust Funds, and specific trusts established within the State Special Revenue Fund. The participants' investments in the pools are reported at fair value in the balance sheet within the individual funds (See Note 4 on Cash/Cash Equivalents and Investments).

**J. Fixed Assets** - Fixed asset valuation is based on actual historical cost or, in the case of donations, fair market value on the date donated. General government infrastructure fixed assets and interest expenditures for general fixed assets are not capitalized. Infrastructure assets of primary government and component unit proprietary activities are capitalized. Interest incurred during the construction of fixed assets for proprietary funds and higher education units is capitalized.

Fixed assets are not depreciated in the General Fixed Assets Account Group. Purchases of such assets are recorded as expenditures in the appropriate governmental fund. Fixed assets in Proprietary, Nonexpendable Trust and Pension Trust Funds are accounted for within their respective funds and are depreciated. Expendable Trust Funds do not report fixed assets within their funds because the assets are purchased by other funds. Depreciation is on a straight-line basis with estimated useful lives of 25 to 60 years for buildings, 20 years for improvements and 3 to 10 years for equipment. Fixed assets and intangible assets for Higher Education units are accounted for in the Investment in Plant Fund and are not depreciated.

The capitalization threshold for recording fixed assets is \$5,000. Purchases under this threshold are recorded as expenditures/expenses in the current period.

**K. Deferred Revenue** - Deferred revenues arise when a potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the State has a legal claim to the resources, the liability for deferred revenue is removed from the Combined Balance Sheet and revenue is recognized.

**L. Long-Term Obligations** - Long-term obligations expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group. Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from current expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the General Long-Term Debt Account Group.

Long-term liabilities expected to be financed from proprietary fund operations are accounted for in those funds.

**M. Capital Leases** - A capital lease is generally defined by Statement of Financial Accounting Standards No. 13 Accounting for Leases as one which transfers benefits and risks of ownership to the lessee. Leases meeting the criteria of a capital lease as defined are recorded at inception as expenditures and other financing sources in governmental fund types and as assets and liabilities in the General Fixed Assets and General Long-Term Debt Account Groups, respectively, at the present value of the future minimum lease payments, using the interest rates stated in the leases.

**N. Bond Discounts/Premiums/Issuance Costs** - In governmental funds, bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond proceeds are reported as an other financing source net of any premium or discount. Issuance costs are reported as debt service expenditures whether or not they are withheld from the net bond proceeds. In proprietary fund types, bond premiums and discounts are deferred and amortized over the life of the bonds, which approximates the effective interest method. Bonds payable are recorded net of any applicable premium or discount while issuance costs are reported as deferred charges.

**O. Compensated Absences** - Full-time state employees earn vacation leave ranging from 15 to 24 days per year depending on the individual's years of service. Teachers employed by the state do not receive vacation leave. Vacation leave may be accumulated and carried over from one year to the next. The carryover is limited to two times the maximum number of days earned annually. Sick leave is earned at the rate of 12 days per year with no limit on accumulation. Each contribution year, an employee may contribute a maximum of 40 hours of sick leave to a nonrefundable sick leave pool. For fiscal year 2000, 1,292 hours were contributed to the sick leave pool and 1,446 hours were withdrawn leaving a balance of 3,774 hours in the pool. No liability is reported in the accompanying financial statements because these hours are nonrefundable to participants except by grants approved through an application process.

Vested or accumulated leave of Proprietary and Pension Trust Funds is recorded as an expense and liability of those funds; for higher education the expense and liability is recorded in the current unrestricted funds as the benefits accrue to employees. The liability amount recorded in the General Long-Term Obligations Account Group is not expected to be liquidated with expendable financial resources, thus no expenditure or liability is reported in the governmental funds. Upon retirement or termination, an employee is paid for 100 percent of unused vacation leave and 25 percent of unused sick leave.

As of June 30, 2000, the State's liability for unused vacation and sick leave for Higher Education Funds was \$33,896,891. The leave liabilities for the remaining agencies at June 30, 2000, were \$61,486,000, an increase of

\$5,263,000 over the June 30, 1999, leave liability of \$56,223,000. The following table reflects the change (in thousands):

	Balance July 1, 1999	Leave Earned	Leave Used	Balance June 30, 2000
<b>Primary Government</b>				
Governmental Fund Types and Similar Trust Funds	\$50,941	\$31,890	\$27,951	\$54,880
Proprietary Fund Types and Similar Trust Funds	4,137	3,725	2,579	5,283
Total	\$55,078	\$35,615	\$30,530	\$60,163
<b>Component Units</b>				
Proprietary Fund Types and Similar Trust Funds	1,145	829	651	1,323
Total Non-Higher Education Funds	\$56,223	\$36,444	\$31,181	\$61,486

P. **Encumbrances** - The State utilizes encumbrance accounting to record purchase orders, contracts and other commitments for the expenditure of monies to assure effective budgetary control and accountability. Encumbrances outstanding at year-end represent the estimated amount of expenditures likely to result if orders for goods and services are completed. In governmental funds, encumbrances outstanding at year-end are reported as reservations of fund balances since they do not represent expenditures or liabilities.

Q. **Advances to Other Funds** - Noncurrent portions of long-term interfund receivables are reported as advances and are offset equally by a fund balance reserve account, which indicates that they do not constitute expendable available financial resources. The transaction is recognized by the receiving fund in the balance sheet account AAdvance From Other Funds.

R. **Fund Equity** - Contributed capital is recorded in proprietary funds that have received capital from other funds. Reservations represent those portions of fund equity or retained earnings not appropriated for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for the future use of financial resources. In FY2000 the General Fund designated fund balance represents the 1999 Legislature's desire to set aside \$30 million in tobacco settlement funds for revenue stabilization. Undesignated fund balances indicate that portion of fund equity that is available for budgeting in future years subject to working capital requirements.

S. **Property Taxes** - Real property taxes are levied in October and are payable in two installments on November 30 and May 31. These taxes attach as an enforceable lien immediately if not paid when due. The State recognizes property tax revenues as available if they are collectible within 60 days after fiscal year-end. Material delinquent and total uncollected current year property taxes receivable are recorded in receivables (net of uncollectibles).

Personal property tax levies are set each August and notices are normally mailed the following March or April. Half of mobile home taxes are due in 30 days and the remaining half on September 30. Taxes on all other types of personal property are to be paid in full 30 days after receipt of the notice. Personal property taxes attach as an enforceable lien immediately if not paid when due. Property taxes are collected by each of Montana's 56 counties. The counties then remit the State's portion to the State Treasury. The majority of these taxes help fund public school systems and higher education.

T. **Other Taxes** - On the Combined Statement of Revenues, Expenditures and Changes in Fund Balances for All Governmental Fund Types and Expendable Trust Funds, the revenue category "Other Taxes" consists of the following taxes (in thousands):

	General Fund	Special Revenue Fund	Capital Projects Fund	Total
Video Gaming	\$ 13,928	\$27,585	\$ -	\$ 41,513
Insurance Premium	37,840	14	-	37,854
Inheritance	19,039	-	-	19,039
University System Millage	995	13,189	-	14,184
Cigarette/Tobacco	10,498	1,491	1,837	13,826
Accommodations	43	11,072	-	11,115
Telephone License	9,452	-	-	9,452
Alcoholic Beverage	1,386	4,020	-	5,406
Electrical Energy	5,496	-	-	5,496
Public Contractor	2,162	-	-	2,162
Livestock	-	3,010	-	3,010
Public Service Commission	-	2,291	-	2,291
Freight Line	2,101	-	-	2,101

	General Fund	Special Revenue Fund	Capital Projects Fund	Total
Fire Protection	-	2,151	-	2,151
Wheat Sales	-	1,466	-	1,466
Vehicle	-	1,513	-	1,513
Consumer Counsel	-	949	-	949
Miscellaneous	142	1,088	-	1,230
<b>Total Other Taxes</b>	<b>\$103,082</b>	<b>\$69,839</b>	<b>\$1,837</b>	<b>\$174,758</b>

## 2. BUDGETARY REPORTING

**A. State Budget Process** - The Montana Legislature meets in the odd-numbered years to prepare annual budgets for the next biennium. The constitution requires that legislative appropriations not exceed available revenues. The legislature utilizes revenue estimates in the budgetary process to establish appropriation levels. Expenditures may not legally exceed budgeted appropriations at the fund level. In addition, the State Constitution prohibits borrowing to cover deficits incurred because appropriations exceeded anticipated revenues. State law requires an appropriation for disbursements from the General, Special Revenue and Capital Projects Funds, except for those Special Revenue Funds from nonstate and nonfederal sources restricted by law or by the terms of an agreement. The level of budgetary control is established by fund type, except Capital Project Funds, which are at project level. Budgets may be established in other funds for administrative purposes.

Agency budget requests are submitted to the Governor and the Legislative Fiscal Division. The Governor and budget director establish priorities and balance the budget. The Governor's budget is submitted to the Legislative Fiscal Division which prepares recommendations. A comparison of those recommendations with the Governor's budget is submitted to the legislature. Joint appropriations subcommittee hearings are held and an omnibus appropriation bill is reported in the House and subsequently sent to the Senate. The legislature generally enacts one bill to establish the majority of appropriations for the next two fiscal years. The Office of Budget and Program Planning establishes appropriations for each program by accounting entity (fund) within an agency. The legislature enacts other appropriations, but only within the available revenue. Agencies must prepare and submit to the budget director operational plans showing the allocation of operating budgets by expenditure category (i.e., personal services, operating expenses, equipment, etc.). The budget director or other statutorily designated approving authority may authorize changes among expenditure categories and transfers between program appropriations.

Appropriations may not be increased by amendment in the General Fund. However, a department, institution or agency of the executive branch desiring authorization to make expenditures from the General Fund during the first fiscal year of the biennium from appropriations for the second fiscal year of the biennium may apply for authorization from the Governor through the budget director. In the second year of the biennium, during the legislative session, the legislature may authorize supplemental appropriations. The Governor, or his designee, may approve budget amendments for non-general fund monies not available for consideration by the legislature and for emergencies. In the accompanying financial statements, reported budget amounts are as amended. There have been budget amendments authorized for fiscal year 2000 that were material to specific budgets, however, they did not materially affect the States budget as a whole. There were no expenditures in excess of total authorized appropriations in the State's budgeted funds for the fiscal year.

Appropriations may be continued into the next fiscal year when authorized by the legislature or the Governor's office. After fiscal year-end, appropriations that are not continued are reverted. The reverted appropriations remain available for one fiscal year for expenditures that exceed the amount accrued/encumbered. Fund balances/retained earnings are not reserved for reverted appropriations. For fiscal year 2000, reverted appropriations for all funds were \$410.8 million of which \$24.1 million were for the General Fund and \$377.3 million were for the Special Revenue Fund. Agencies are able to carry forward 30% of their reverted operating appropriations into the next two fiscal years. This amount can be used for new expenditures at the request of the agency and upon approval of the budget office.

Appropriations for Capital Projects Funds are not made on an annual basis, but are adopted on a project-length basis. Because these non-operating budgets primarily serve a management control purpose and related appropriations are continuing in nature, no comparison between budgeted and actual amounts for funds budgeted on this basis is provided.

**B. Budget Basis** - The legislature's legal authorization ("appropriations") to incur obligations is enacted on a basis inconsistent with GAAP. The budget basis differs from GAAP for encumbrances outstanding at fiscal year-end; compensated absences, fixed assets and inventories purchased in Proprietary Funds; compensated absences and inventories purchased in Higher Education Funds; certain loans from governmental funds; and other miscellaneous nonbudgeted activity (e.g., bad-debt write-offs, etc.). The General and Special Revenue Fund Type budgetary statement includes a reconciliation of unreserved fund balance between "Excess of Revenues/Other Sources Over (Under) Expenditures/Other Uses" on the budgetary basis and the GAAP basis.



### 3. OTHER ACCOUNTING ISSUES

**A. Accounting and Reporting Changes** - The State made changes in its accounting and reporting practices to enhance conformance with GAAP. All changes reported in the accompanying financial statements that resulted in the restatement of beginning fund equity were made to correct errors of prior periods.

**B. State Compensation Insurance Fund** - The workers compensation benefit/claims expenditure amount (in thousands) of \$69,749 reported in the component unit's column in the combined proprietary fund operating statement consists of the amount of benefits paid and the actuarially determined change in estimated claims liability for the State Compensation Insurance (New Fund) and State Compensation Insurance (Old Fund). The amounts for each fund are broken down as follows:

	<u>State Compensation Insurance</u>	
	<u>New Fund</u>	<u>Old Fund</u>
Benefit and Loss Adjustment Expense	\$57,047	\$ 13,421
Incr (Decr) in Actuarially Estimated Claims	11,400	(12,119)
Total Benefits/Claims	<u>\$68,447</u>	<u>\$ 1,302</u>

### 4. CASH/CASH EQUIVALENTS AND INVESTMENTS

This footnote details the following balance sheet classifications (in thousands):

Cash/Cash Equivalents	\$1,617,616
Equity in Pooled Investments	\$6,283,662
Investments	\$1,657,756

Carrying amounts and fair values (Bank Balance for Cash Deposits) for the State's cash/cash equivalents and investments are presented in Tables 1 through 4.

#### A. General

(1) Cash and cash equivalents consist of funds deposited by individual funds in the State Treasurers pooled cash account, cash deposits in checking accounts, cash invested in the Short Term Investment Pool, undeposited cash held by individual state agencies, and investments categorized as cash equivalents.

Cash deposited with the State Treasurers pooled cash account is invested by the Montana Board of Investments (BOI) in short term securities and other investments. Because these funds are immediately available to the individual funds, their investment in the pooled cash account is reported as a cash equivalent. In addition to the State Treasurers pooled cash account there is a short term investment pool (STIP) maintained by the BOI. This investment fund provides individual state agencies and local governments an opportunity to invest excess cash in a money market fund. Because these pooled funds are invested in short term, highly liquid investments, the individual funds investments in the STIP are reported as a cash equivalent.

Although STIP, an external investment pool, is not registered with the Securities and Exchange Commission (SEC) as an investment company, the BOI has as policy that STIP will, and does, operate in a manner consistent with the SECs rule 2a7 of the Investment Company Act of 1940. In meeting certain conditions, STIP, as a 2a7-like pool, is allowed to use amortized cost rather than fair value to report net assets to compute unit values. Investments held are reported at fair value, annually, and the difference between amortized cost and fair value is reflected as an unrealized gain or loss in the investments managed. The portfolio is carried at amortized cost or book value. State agencies that are allowed to retain their investment earnings within their funds are only allowed to invest in STIP. Local government participation in STIP is also voluntary. Separately issued external investment pool financial statements may be obtained by contacting the Montana Board of Investments, 2401 Colonial Drive, 3<sup>rd</sup> Floor, PO Box 200126, Helena, MT 59620-0126.

Deposits with financial institutions are categorized to indicate the level of risk assumed by the State. **Category 1** consists of deposits that are insured or collateralized with securities held by the State or by its agent in the State's name. **Category 2** consists of deposits collateralized with securities held by the pledging financial institution's trust department or agent in the State's name. **Category 3** deposits are uncollateralized. The State's Cash Deposits are categorized in Table 1.

The State's cash equivalents and investments are categorized to indicate the risk level assumed by the State in Table 2 - Cash Equivalents, Table 3 - Equity in Pooled Investments and Table 4 - Investments to disclose the level of risk assumed by the State at fiscal year-end.

**Category 1** includes investments that are insured or registered securities held by the State or its agent in the State's name. **Category 2** includes uninsured and unregistered investments in which the securities are held by the counter party's trust department or agent in the State's name. **Category 3** includes uninsured and unregistered investments in which the securities are held by the counter party, or by its trust department or agent, but not in the State's name. None of the State's cash equivalents or investments are classified in Category 3 at fiscal year-end. **Not Categorized** includes investments held by broker-dealers under securities loans with cash collateral.

(2) The State invests in certain types of securities including asset-backed securities, variable-rate instruments, zero coupon bonds, preferred stocks (convertible equity securities), and mortgage-backed securities in addition to other long term investment securities to provide a diversified investment portfolio and an overall competitive rate of return. All securities are reported by investment portfolio and type in Table 2 - Cash Equivalents, Table 3 - Equity in Pooled Investments, and Table 4 - Investments.

Asset-backed securities represent debt securities collateralized by a pool of non-mortgage assets such as trade and loan receivables, equipment leases, credit cards, etc. These securities have less credit risk than do securities not backed by pledged assets, while market risk for asset-backed securities is the same as market risk for similar non asset-backed securities.

Variable-rate instruments pay a variable rate of interest until maturity. The variable rate floats with the 91 day treasury bill or the London Interbank Offered Rate (LIBOR). Variable-rate instruments have credit risk identical to similar fixed-rate securities; however, their market risk (income) is more sensitive to interest rate changes. Their market risk (value/price) may be less volatile than fixed-rate securities because their value will usually remain near par as a result of interest rates being periodically reset to maintain a current market yield.

Zero Coupon Bonds and Preferred Stocks include securities whose structure differs from the basic convertible security structure. These include PENs (Participating Equity Notes), PERCs (Preferred Equity Redemption Coupons), DECS (Dividend Enhanced Common Stock) and ACES (Automatically Convertible Equity Securities). PENs are corporate bonds offering the investor a choice at maturity of receiving the greater of the bond's par value or the value of a preset ratio of an established index. PERCs reflect an investor's acceptance of a cap in a security's price appreciation in exchange for a higher income yield. DECS and ACES are issued, and traded, at a premium to the underlying common stock in exchange for a higher dividend yield. The State's investment policy requires convertible debt and zero coupon bonds to be rated at a specific level at time of purchase as a credit risk control measure. These securities carry market risk and the potential for change in market value. Market value changes may occur due to interest rate changes, declines in the value of underlying common stock, or the triggering of a call feature and other factors.

Mortgage-backed securities reflect participation in a pool of residential mortgages. These securities include structured financial instruments known as REMICs (Real Estate Mortgage Investment Conduits). Some REMICs are principal-only strips (POS) and interest-only strips (IOS). These securities are based on the cash flows from the principal and interest payments on underlying mortgages, respectively. These securities have credit risk as measured by major credit rating services. The State's investment policy requires these investments to be rated investment grade at the time of purchase. Market risk for these securities is caused by changes in the price or principal value of the securities due to changes in interest rates.

There are no legal risks, as of June 30, 2000, that the State is aware of regarding any investments.

(3) Under the provisions of State statutes, the State has, via a Securities Lending Authorization Agreement, authorized the State's agent to lend the States securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. During the period the securities are on loan, the State receives a fee and the agent must initially receive collateral equal to 102% - 105% of the fair value of the securities on loan and maintain collateral equal to not less than 100% of the fair value of the loaned security. During fiscal year 2000, the States agent loaned, on behalf of the State, certain securities held by the agent, and received US dollar currency cash, US government securities, and irrevocable bank letters of credit. The States agent does not have the ability to pledge or sell collateral securities unless the borrower defaults. The State retains all rights and risks of ownership for the loaned securities. On June 30, 2000, the State had no credit risk exposure to borrowers.

#### **B. Cash/Cash Equivalents**

(1) **Cash Deposits** - The State requires collateralization based on the average daily bank balance in the depository bank holding the main State bank account. For other depository banks, State statutes require collateralization at 50% of the bank balance. The Cash Deposit amounts include both Primary Government and Component Unit deposits.

Table 1 - Cash Deposits (in Thousands)

Risk Category		Carrying Amount	Bank Balance	Fund
1	Insured (FDIC)	\$ 1,514	\$ 1,514	Various
	Collateral held by State/State's agent	28,726	28,726	Various
2		5,321	5,321	Various
3		4,262	4,262	Various
<b>Uncategorized:</b>				
	Undeposited Cash	1,417		
	Cash in U.S. Treasury	170,099		
	Less: Outstanding Warrants	(54,973)		
<b>Total Cash Deposits</b>		<b>\$156,366</b>		

As of June 30, 2000, the carrying amount of deposits for component units was \$48,945,155 and the bank balance was \$48,362,547. Of the bank balance, \$48,000,061 was fully insured or collateralized with securities held by the component units or their agents in the unit's name and \$362,486 was collateralized with securities held by the pledging institution's trust department or its agent in the respective component unit's name.

(2) **Cash Equivalents** - consists of cash in the State Treasury invested by individual funds in the Short Term Investment Pool (STIP) and the Treasurers Cash Pool in identifiable securities and investments considered to be cash equivalents. Cash equivalents, except for the Housing Authority in the Component Unit Proprietary Fund, generally are short-term, highly liquid investments with original maturities of three months or less. The Housing Authority considers cash and cash equivalents to be cash held by the State Treasurer, other cash deposits, and mortgage payments in transit. Cash equivalents may be under the control of the Board of Investments (the Board) or other agencies, as allowed by law.

Table 2 - Cash Equivalents (in Thousands)

	Risk Category 1		Not* Categorized	Carrying Amount	Fair Value	Fund
	Securities Not on Loan	On Loan for* Securities Collateral				
Asset-Backed Securities	\$381,789	\$ -	\$ -	\$ 381,789	\$ 381,865	Various
Corporate Obligations	762,776	-	99	762,875	762,235	Various
Government Securities	164,564	10,182	-	174,746	173,758	Various
Repurchase Agreements	52,000	-	-	52,000	52,000	Various
Variable-Rate	61,926	-	-	61,926	61,926	Various
Direct Investments:						
Money Markets				26,801	26,801	Various
Guaranteed Investment Contracts				1,082	1,082	Various
<b>Total Cash Equivalents</b>				<b>\$1,461,219</b>	<b>\$1,459,667</b>	
Securities Lending Collateral Investment Pool			\$ 104	\$ 104	\$ 104	

\* At June 30, 2000, the underlying securities, with fair values of \$99,204 and \$9,964,100, respectively, were loaned for securities and cash collateral under a security lending agreement with the States agent.

As of June 30, 2000, local governments invested \$481,726,556 in the STIP.

As of June 30, 2000, component units of the State of Montana had investments in cash equivalents with a book value and fair value of \$223,901,961.

**C. Equity in Pooled Investments** - Consists of investments held by pooled investment funds. The Montana Stock Pool (MTCP), Trust Funds Bond Pool (TFBP), Retirement Funds Bond Pool (RFBP), Montana International Pool (MTIP), and Montana Real Estate Pool (MTRP) were created to allow qualifying funds to participate in diversified investment pools. Participation is restricted to expendable trust, nonexpendable trust, pension trust, higher education endowment and trust funds, the Deferred Compensation Plan and specific trusts established within the state special revenue fund. Purchases are subject to statutory restrictions for quality and size of holdings.



Table 3 - Equity In Pooled Investments (in Thousands)

	Risk Category 1		Not Categorized*	Carrying Amount	Fair Value
	Securities Not on Loan	On Loan for Securities Collateral*			
<b>MTCP:</b>					
Corporate Stocks	\$1,658,856	\$ -	\$ 14,957	\$1,673,813	\$2,804,462
<b>TFBP:</b>					
Corporate Asset Backed	12,882	-	-	12,882	13,004
Corporate Stocks	657,288	-	7,480	664,768	628,399
US Govt. Mortgage Backed	28,752	-	-	28,752	27,972
US Govt. Direct	98,105	-	147,524	245,629	251,492
Yankee Bonds	99,255	-	-	99,255	92,287
State and Local Government	25,554	-	-	25,554	25,557
<b>RFBP:</b>					
Corporate Asset Backed	8,041	-	-	8,041	8,092
Corporate Stocks	1,126,637	-	14,961	1,141,598	1,076,370
US Govt. Mortgage Backed	62,506	-	-	62,506	61,865
US Govt. Direct	205,058	1,057	243,726	449,841	463,224
Yankee Bonds	136,629	-	2,000	138,629	129,057
State and Local Government	3,650	-	-	3,650	3,650
<b>MTIP:</b>					
BOI Internal International	79,787	-	33,985	113,772	149,448
Pyford International	64,069	713	4,646	69,428	66,508
Schroder Capital Management	76,942	-	6,670	83,612	103,160
SG Pacific Asset Management	73,043	501	8,091	81,635	96,999
<b>MTRP:</b>					
Corporate Stocks	108,691	-	13,942	122,633	129,940
<b>Total Pooled Investments</b>	<b>4,525,745</b>	<b>2,271</b>	<b>497,982</b>	<b>5,025,998</b>	<b>6,131,486</b>
Other Pool Assets (Net)	-	-	-	152,177	152,177
<b>Total - Equity In Pooled Investments</b>	<b>\$4,525,745</b>	<b>\$2,271</b>	<b>\$497,982</b>	<b>\$5,178,175</b>	<b>\$6,283,663</b>
Securities Lending Collateral Investment Pool			\$573,082	\$ 573,082	\$ 573,082

\* At June 30, 2000, these underlying securities, with fair values of \$2,376,727 and \$553,402,560, respectively, were loaned for securities and cash under a security lending agreement with the State's agent.

As of June 30, 2000, component units of the State of Montana had equity in pooled investments with a book value of \$3,012,803,528 and a fair value of \$5,186,262,511.

**D. Investments** - Long-term investments are primarily administered by three state agencies. Article 8 of Montana's Constitution, with supporting statutes, authorizes the Board of Investments (BOI) to manage the State's unified investment program. State law specifies which agencies may hold investments outside the administration of the BOI. The BOI, as the State's primary administrator of long-term investments, actively manages 80% of those investments; the Board of Housing, 11%, and the Department of Administration's Public Employees Retirement Board, 8% for the State's Deferred Compensation Plan. Additionally, the Department of Natural Resources and Conservation manages 1% of total investments for bond related activities.

The BOI must employ the "Prudent Expert Rule" in managing the State's investment portfolio. Investments are presented in the Balance Sheet at fair value. Investment fair values for publicly traded securities are determined primarily by reference to market prices supplied to the BOI's custodial bank or trustee. Amortized cost, or carrying value, represents the original cost adjusted for premium and discount amortization where applicable.

The BOI continued to invest in leveraged buyouts and venture capital in fiscal year 2000. The BOI's total leveraged buyout commitment, administered by Kohlberg, Kravis, Roberts and Companies, amounts to \$125,000,000. The leveraged buyout invested balance for the pension funds amounted to \$100,604,314 on June 30, 2000.

For the purpose of portfolio diversification, the BOI has committed \$123,000,000 for venture capital investments administered by Brinson Partners. The June 30, 2000, venture capital invested balance totaled \$20,571,833 for the Teachers Retirement and \$25,143,323 for the Public Employees Retirement systems.

On August 10, 2000, the BOI approved a \$35,000,000 commitment to invest in the Brinson Partnership Fund – US2001 Subscription.

In March 2000, the BOI committed to invest \$250,000,000, to be funded over a two-year period, in the S & P 500 Equity Index Fund managed by Barclays Global Investors. The \$15,000,000 per month investment began in May 2000. As of June 30, 2000, the pension funds had an invested balance of \$45,000,000.

**Table 4 – Investments (Risk Categories) (in Thousands)**

	<b>Risk Category 1</b>				
	<b>Securities</b>	<b>Risk</b>	<b>Not</b>	<b>Carrying</b>	<b>Fair</b>
	<b>Not on Loan</b>	<b>Category 2</b>	<b>Categorized*</b>	<b>Amount</b>	<b>Value</b>
<b>Primary Government</b>					
Corporate Bonds	\$ 82,348	\$ -	\$ 1,763	\$ 84,111	\$ 80,051
Corporate Asset-Backed	69,547	-	-	69,547	68,914
Government Securities	87,504	-	17,743	105,247	102,911
Government Mortgage-Backed	20,686	-	-	20,686	19,626
Other	8,842	-	171	9,013	8,611
<b>Total</b>	<b>\$ 268,927</b>	<b>\$ -</b>	<b>\$ 19,677</b>	<b>\$ 288,604</b>	<b>\$ 280,113</b>
<b>Component Units</b>					
Corporate Bonds	\$193,418	\$ -	\$ 329	\$ 193,747	\$ 186,823
Corporate Asset-Backed	41,385	-	-	41,385	41,052
Government Securities	37,784	49,882	100,813	188,479	188,892
Government Mortgage-Backed	34,842	-	-	34,842	33,549
Other	18,945	120,179	-	139,124	138,444
<b>Total</b>	<b>326,374</b>	<b>170,061</b>	<b>101,142</b>	<b>597,577</b>	<b>588,760</b>
<b>Total</b>	<b>\$595,301</b>	<b>\$170,061</b>	<b>\$120,819</b>	<b>\$ 886,181</b>	<b>\$ 868,873</b>

Direct Investments:

**Primary Government**

Commercial Loans	128,022	128,022
<b>Total</b>	<b>\$ 128,022</b>	<b>\$ 128,022</b>

**Component Units**

Real Estate	\$ 11,738	\$ 13,202
Mortgages	261,705	248,852
Deferred Compensation	123,554	135,666
Other	192,698	263,578
<b>Total</b>	<b>589,695</b>	<b>661,298</b>

**Total Investments**

Securities Lending Collateral		
Investment Pool	\$126,357	\$ 126,357

\* At June 30, 2000, the underlying securities, with fair values of \$111,876,994 were loaned for cash collateral under a security lending agreement with the State's agent.

**5. FIXED ASSETS**

Changes in fixed asset balances for the fiscal year ended June 30, 2000, are reflected in the following table (Intrafund transfers of fixed assets have not been eliminated) (in thousands):

# Primary Government

	Balance July 1, 1999	Additions/ Transfers	Deletions/ Transfers	Balance June 30, 2000
<b>Proprietary Funds</b>				
Land	\$ 1,036	\$ -	\$ -	\$ 1,036
Buildings/Improvements	6,045	495	667	5,873
Equipment	133,925	33,405	24,297	143,033
Other Fixed Assets	1,147	-	-	1,147
Construction in Progress	1,527	4,082	352	5,257
Subtotal/Total	143,680	\$37,982	\$25,316	156,346
Accumulated Depreciation	(75,962)			(82,401)
Total	\$ 67,718			\$ 73,945

## **Nonexpendable Trust Funds**

Land	\$ 51,260	\$ -	\$ -	\$ 51,260
Total	\$ 51,260	\$ 1	\$ -	\$ 51,261

## **General Fixed Assets Account Group**

Land	\$ 62,186	\$ 4,131	\$ 50	\$ 66,267
Buildings/Improvements	328,806	66,262	8,779	386,289
Equipment	63,478	8,781	7,781	64,478
Other Fixed Assets	49,650	15,664	155	65,159
Construction in Progress	38,134	34,620	5,238	67,516
Total	\$542,254	\$ 129,458	\$22,003	\$649,709

## **Component Units**

### **Proprietary Funds**

Equipment	\$ 2,658	\$ 642	\$ 556	\$ 2,744
Accumulated Depreciation	(1,543)			(1,508)
Total	\$ 1,115			\$ 1,236

### **Pension Trust Fund**

Land	\$ 60	\$ -	\$ -	\$ 60
Buildings/Improvements	435	-	-	435
Equipment	152	-	-	152
Subtotal/Total	647	\$ -	\$ -	647
Accumulated Depreciation	(370)			(399)
Total	\$ 277			\$ 248

### **Higher Education Funds**

Land	\$ 13,511	\$ 217	\$ -	\$ 13,728
Buildings/Improvements	503,493	56,693	33,231	526,955
Equipment	100,797	13,299	2,872	111,224
Other Fixed Assets	88,216	3,437	379	91,274
Construction in Progress	67,921	18,612	56,145	30,388
Intangible Assets	3,271	206	-	3,477
Total	\$777,209	\$92,464	\$92,627	\$777,046

Auditor's Report & Findings

Corrective Action Plan

Summary Schedule of Prior  
Audit Findings

**6. RETIREMENT SYSTEMS****DEFINED CONTRIBUTION PLAN**

Effective January 1, 1988 through June 30, 1993, eligible employees of the Montana University System (MUS) could elect to participate in the Optional Retirement Program (ORP). The ORP is a defined contribution retirement plan governed by Title 19, chapter 21 of the Montana Code Annotated. The plan is underwritten by the Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF) and only faculty and staff with contracts under the authority of the Board of Regents may participate. Those faculty and staff members who did not elect the ORP participate in the Teachers Retirement System, a defined benefit plan discussed in the next section. Beginning July 1, 1993, membership in the ORP is mandatory for eligible employees new to the MUS. The MUS is the only employer contributing to this plan.

The benefits at retirement depend upon the amount of contributions, amount of investment gains and losses and the employee's life expectancy at retirement. Under the ORP, each employee enters into an individual contract with TIAA-CREF. Individuals are immediately vested with all contributions. Higher education units record employee/employer contribution expenditures in the affected higher education subfund when remitting contributions to the Commissioner of Higher Education. These monies are recorded in the Custodial Accounts Agency Fund. The Commissioner's Office then wire transfers the contributions to TIAA-CREF. The MUS is not liable for asset management or for providing benefits after the required contributions have been made to TIAA-CREF. As of June 30, 2000, 1,859 employees are members of the ORP. Required employee contributions are 7.15% of salary and required employer contributions are 4.85% of salary for a total of 12% of salary contributed to the ORP.

	<b>TIAA-CREF</b> <i>(in Thousands)</i>
Covered Payroll	\$ 86,649
Total Payroll	230,181
Employer Contributions	\$ 4,138
Percent of Covered Payroll	4.775%
Employee Contributions	\$ 6,100
Percent of Covered Payroll	7.04%

**DEFINED BENEFIT PLANS****A. General**

The Public Employees Retirement Board, a discretely presented component unit of the State of Montana, administers eight defined benefit plans - Public Employees Retirement System (PERS), Highway Patrol Officers Retirement System (HPORS), Judges Retirement System (JRS), Game Wardens and Peace Officers Retirement System (GWPORS), Sheriffs Retirement System (SRS), Municipal Police Officers Retirement System (MPORS), Firefighters Unified Retirement System (FURS), and Volunteer Firefighters Compensation Act (VFCA). The board prepares a publicly issued financial report that includes financial statements and required supplementary information for PERS, HPORS, JRS, GWPORS, SRS, MPORS, FURS, and VFCA.

The Teachers Retirement System (TRS) is a discretely presented component unit of the State of Montana. The system prepares a publicly issued financial report that includes financial statements and required supplementary information for TRS.

A summary of government employers participating in PERS, SRS, MPORS, HPORS, FURS, GWPORS, JRS and TRS by employer type at June 30, 2000, follows:

	<b>Retirement System</b>							
	<b>PERS</b>	<b>SRS</b>	<b>MPORS</b>	<b>HPORS</b>	<b>FURS</b>	<b>GWPORS</b>	<b>JRS</b>	<b>TRS</b>
<b>Employers</b>								
State Agencies	34	1		1		5	1	7
Counties	55	55						
Cities/Towns	90		21		14			
Colleges/Universities	5					3		12
School Districts	238							388
Other	84							
<b>Total</b>	<b>506</b>	<b>56</b>	<b>21</b>	<b>1</b>	<b>14</b>	<b>8</b>	<b>1</b>	<b>407</b>

## **B. Plan Descriptions**

The State contributes to and/or administers nine plans in four categories: (1) the State as the single employer; (2) the State as an employer contributor to cost-sharing multiple-employer plans; (3) the State as a nonemployer contributor to cost-sharing multiple employer plans; and (4) the State as a nonemployer contributor.

The number of years required to obtain vested rights varies among the systems. All systems provide early retirement options, death benefits, termination and disability benefits. The post-retirement benefits of each of the systems are included in the plan descriptions below. In addition, the 1997 Legislature passed a guaranteed annual benefit adjustment (GABA) to the PERS, MPORS, GWPORS, SRS, JRS, HPORS, and FURS that will provide a benefit increase of 1.5% each January, beginning January 1998, if the recipient has been receiving a retirement benefit for at least 36 months. In addition, MPORS, JRS, HPORS & FURS members hired prior to July 1, 1997, and retirees of these systems, were required to make an election by December 31, 1997, for GABA coverage.

The funding policies for each system provide for periodic employer and employee contributions (except VFCA) at rates specified by state law; contribution requirements are not actuarially determined. An actuary determines the actuarial implications of the funding requirement in a biennial actuarial valuation. The actuarial method used to determine the implications of the statutory funding level is the entry age normal cost method, with both normal cost and amortization of the unfunded accrued liability determined as a level percentage of payroll. To maintain a fund on an actuarially sound basis, the rate of contributions should fund the normal cost in addition to amortizing the unfunded liability over a period not to exceed 30 years.

### **(1) State as the Single Employer**

**HPORS - Highway Patrol Officers Retirement System** - This system, established in 1971 and governed by Title 19, chapters 2 & 6 of the Montana Code Annotated (MCA), provides retirement benefits for all members of the Montana Highway Patrol, including supervisory personnel. Rights are vested after five years of service. Member contributions are 9% of total salaries of active highway patrol officers hired prior to July 1, 1997 and not electing GABA coverage; and 9.05% for members hired after June 30, 1997 and members electing GABA coverage. The employer contribution rate is 36.33% of active officers salaries. For members hired on or before July 1, 1985, there is no minimum age, but minimum service is 20 years for benefit eligibility. A member hired after July 1, 1985, must be 50 years old and have 20 years of creditable service for benefit eligibility. The service retirement benefit is based on a formula of 2.5% times the number of years of service times the final average salary. Post-retirement benefits, for non-GABA members, are in the form of minimum benefit supplements which ensure the retiree's benefit is no less than 2% of a probationary highway patrol officer's salary for each year of the retiree's service, with the annual increase not to exceed 5% of the benefit nor 60% of the current base salary of a probationary officer. Members retired prior to July 1, 1991, who are at least age 55 and have been retired a minimum of five years, may be eligible for an annual lump sum payment distributed in September. This lump sum payment is funded by a registration fee of 25 cents per vehicle license. The average payment in fiscal year 2000 was \$2,099. This enhancement is limited to non-GABA members.

**JRS - Judges Retirement System** - This system, established in 1967 and governed by Title 19, chapters 2 & 5 of the MCA, provides retirement benefits for all district court judges, justices of the Supreme Court, and the Chief Water Judge. Members contribute 7% of their salaries and the State contributes 25.81% of active judges' salaries. Rights are vested after five years of creditable service. For benefit eligibility, minimum service is five years and the minimum age is 65. The monthly retirement benefit formula is 3 1/3% per year of the member's final average salary for the first 15 years of credited service, plus 1.785% per year for each year of credited service after 15 years. For non-GABA members, the percentages are based on the member's current salary, instead of the final average salary.

### **(2) State as an Employer Contributor to Cost-Sharing Multiple-Employer Systems**

**PERS - Public Employees Retirement System** - This mandatory system, established in 1945 and governed by Title 19, chapters 2 & 3 of the MCA, provides retirement benefits to substantially all public employees not covered by another public system. Member contributions were 6.9% of covered compensation for fiscal year 2000. Each state agency and university system employer contributed 6.9% of PERS covered payroll during fiscal year 2000. Participating local governments and school district employers contributed 6.8% of PERS covered payroll. The State contributed 0.1% for local governments and school district employers from the state general fund. Benefit eligibility is age 60 with at least 5 years of service; age 65 regardless of service; or 30 years of service regardless of age. Actuarially reduced benefits may be taken with 25 years of service or at age 50 with at least five years of service. Monthly retirement benefits are determined by taking the greater of: (1) 1.785% times the number of years of service times the final average salary times any early retirement reduction if necessary or (2) a monthly annuity that is the actuarial equivalent of twice the member's accumulated regular contributions plus interest earned. Members' rights are vested after five years of service.

**TRS - Teachers Retirement System** - This mandatory system, established in 1937 and governed by Title 19, chapter 20 of the MCA, provides retirement services to all persons employed as teachers or professional staff of any public elementary or secondary school, or unit of the university system. Member and employer contributions are 7.15% and 7.47%, respectively, of earned compensation. Eligibility is met with a minimum of 25 years of service or age 60 with 5 years of creditable service. The formula for annual benefits is 1.6667% times creditable service years times the

average final compensation. Rights are vested after five years of creditable service. Vested employees may retire at or after age 50 and receive reduced retirement benefits. Effective January 1, 1988, university system employees eligible to participate in the Teachers Retirement System could elect to participate in an Optional Retirement Plan established by the Board of Regents. A supplemental employer contribution to TRS is required to be amortized by July 1, 2003, the amount that would not be paid for by contributions of university system members. The fiscal year 2000 contribution percentage of the total compensation of employees participating in the ORP program is 3.42% and the contribution was \$2.5 million. The unfunded actuarial accrued liability of \$400.8 million is included in the Schedules of Funding Progress.

**SRS - Sheriffs Retirement System** - This system, established in 1974 and governed by Title 19, chapters 2 & 7 of the MCA, covers all sheriffs and State Department of Justice investigators hired after July 1, 1993. The member contribution is 9.245% of salary; the employer contribution is 9.535% of salary. Minimum years of service for normal service retirement eligibility are 20. The service retirement benefit is calculated at 2.5% of the final average salary for each year of creditable service. Reduced benefits for early retirement may be taken with a minimum of five years of service and a minimum age of 50. Rights are vested after five years of service.

**GWPORS - Game Wardens & Peace Officers Retirement System** - This system, established in 1963 and governed by Title 19, chapters 2 & 8 of the MCA, provides retirement benefits for all persons employed as a game warden, warden supervisory personnel and state peace officers not eligible to join the SRS, HPORS and MPORS systems. The member contributes 8.5% of salary and the State contributes 9.0% of covered active employee salaries. For benefit eligibility, minimum age is 50 and minimum years of service are 20. If subject to involuntary termination, a member may retire with five years of service at age 55. The yearly retirement benefit formula is 2% times the number of years of service times the final average salary. Rights are vested after five years of service. PERS members who are hired into a position covered by the GWPORS have 30 days to elect membership in the GWPORS or remain in PERS.

### **(3) State as a Nonemployer Contributor to Cost-Sharing Multiple-Employer Systems**

**MPORS - Municipal Police Officers Retirement System** - The system, established in 1974 and governed by Title 19, chapters 2 & 9 of the MCA, covers all municipal police officers of cities covered by the plan. It is a cost-sharing plan with a special funding situation. The member contribution is 7.8% of salary for members employed prior to July 1, 1975; 9% of salary for members employed after June 30, 1975, and prior to July 1, 1979; 10.5% of salary for members employed after June 30, 1979 and prior to July 1, 1997; and 11% for members hired on or after July 1, 1997 and members electing GABA. Effective January 1, 2000, the above contributions rates for municipal police officers were reduced by 2% for all active members. City contributions are 14.41% of active police officers' salaries. The State contributes 29.37% of active police officers' salaries. The State's contribution is funded from the general fund. Rights are vested after five years of service. Minimum years of service are five for benefit eligibility at age 50, or 20 years of service at any age. The service retirement benefit is 2.5% times the number of years of service times the final average compensation. For non-GABA members, a minimum benefit adjustment is required to insure that the retired members benefit is not less than one-half of the compensation paid to newly confirmed police officers in the city that last employed the member.

**FURS - Firefighters Unified Retirement System** - This system, established in 1981 and governed by Title 19, chapters 2 & 13 of the MCA, provides retirement benefits for firefighters employed by first and second class cities and other cities that wish to adopt the plan. It is a cost-sharing plan with a special funding situation. The member contribution is 9.5% of compensation for members hired prior to July 1, 1997, and 10.7% for new hires after June 30, 1997, and for members electing GABA coverage. City contributions are 14.36% of total annual compensation. The State contribution is 32.61% of total annual compensation for all firefighters and is paid out of the general fund. Minimum eligibility is 20 years regardless of age. For members not electing GABA and hired prior to July 1, 1981, monthly retirement benefit is 50% of final average compensation plus 2% per year for each year in excess of 20 years, or 2.5% of final average compensation per year. Members hired before July 1, 1981, with less than 20 years, receive a retirement benefit of 2% per year of service. Members electing GABA and hired after July 1, 1981, receive 2.5% per year of service. Post-retirement benefits, for non-GABA members, require that each retiree receive at least 50% of the salary paid a newly confirmed active firefighter. Rights are vested after five years of service.

### **(4) State as a Nonemployer Contributor**

**VFCA - Volunteer Firefighters Compensation Act** - This compensation program, established in 1965 and governed by Title 19, chapter 17 of the MCA, provides medical benefits and pension, disability and death benefits for all volunteer firefighters who are members of eligible volunteer fire companies in unincorporated areas of the state. VFCA is a plan with a special funding situation. The State contribution is 5% of fire insurance premium taxes collected. Rights are vested after ten years of qualified service. Eligibility requirements are 55 years of age and 20 years qualified service for a full benefit or 60 years of age and a minimum of 10 years qualified service for a partial benefit.

### **C. Summary of Significant Accounting Policies**

The defined benefit plans financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to each plan are



recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

#### **D. Method Used to Value Investments**

The Montana Board of Investments (BOI) manages the investments for the retirement systems. Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on a discounted cash flow. Investments that do not have an established market are reported at estimated fair value. These values are based on market prices supplied to the BOI by its custodial bank, State Street Bank, and various brokerage services. The retirement systems have no investments of any commercial or industrial organization whose fair value equals 5% or more of the retirement systems net assets available for benefits.

#### **E. Long-Term Contracts for Contributions**

The Public Employees Retirement System has outstanding contributions for early retirement programs:

The 1993 Montana Legislature enacted House Bill 517--Retirement Incentive Program (RIP) providing PERS members (eligible for a service retirement) an incentive to terminate between June 25, 1993 and December 31, 1993. Local government employers participated through election on or before June 1, 1993. The employer purchased, on the members behalf, one year of additional service for each five years of qualified service ("1 for 5"), up to a maximum of three years, for any retirement eligible member who terminated employment during the defined time period. A total of 898 members took advantage of the program (630 from 32 state agencies, 95 from 6 universities, and 173 from 48 local government agencies).

The Montana Legislature also provided a new provision of the Employee Protection Act (EPA) (19-2-706, MCA) allowing State employees (eligible for a service retirement) whose positions have been eliminated to have their employer purchase up to three years of "1 for 5" additional service. As of June 30, 2000, 215 employees have taken advantage of the provision.

The employer has up to ten years to complete payment for the service purchases and is charged 8% interest on the unpaid balance. Total retirement incentive contributions received (including interest) during fiscal year 2000 totaled \$335,961. June 30, 2000, outstanding balances were \$528,301.

#### **F. Actuarial Data**

Actuarial valuations are performed every two years. Hendrickson, Miller & Associates Inc., Helena, MT, prepared the actuarial reports for the retirement systems, excluding TRS, before July 1, 1998. Employee Benefit Resources, LLP, of Helena, MT, prepared the July 1, 1998, actuarial reports for the retirement systems, excluding TRS. Milliman & Robertson, Inc., of Seattle, WA., performed the actuarial valuation for TRS for July 1, 1998 and July 1, 2000. Milliman & Robertson of Portland, OR, prepared the July 1, 2000, actuarial reports for the retirement systems, excluding TRS.

#### **G. Funding Policy and Annual Pension Cost**

The following tables provide information concerning funding policies and annual pension costs (in thousands):

##### **Single Employer Systems**

	<b>HPORS</b>	<b>JRS</b>
Annual pension cost	\$2,824	\$899
Contributions		
Employer	\$1,956	\$899
Employee	668	244
License and Registration fees	881	-
Actuarial valuation date	7/01/00	7/01/00
Actuarial cost method	Entry age	Entry age
Amortization method	Level percentage of total salaries, open	Level percentage of total salaries, open
Remaining amortization period	30 years	30 years
Asset valuation method	4 year smoothed market	4 year smoothed market

## Single Employer Systems

	HPORS	JRS
Actuarial Assumptions:		
Investment rate of return	8.0%	8.0%
Projected salary increases (includes inflation factor)	4.5%	4.5%
Merit	0%-7.3%	None
Postretirement benefit increases	None	None

## Single Employer Systems

Year Ended	Annual Pension Costs (APC)	Percentage of APC Contributed	Net Obligation
<b>HPORS</b>			
06/30/98	\$2,595	103.2%	NONE
06/30/99	2,602	99.7%	NONE
06/30/00	2,824	99.5%	NONE
<b>JRS</b>			
06/30/98	\$ 843	100.0%	NONE
06/30/99	823	100.0%	NONE
06/30/00	899	100.0%	NONE

## Multiple Employer Systems

Year Ended	Annual Required Contribution (ARC)	Percentage of ARC Contributed	Net Obligation
<b>PERS</b>			
06/30/98	\$45,223	100.0%	NONE
06/30/99	47,125	101.6%	NONE
06/30/00	49,695	98.7%	NONE
<b>MPORS</b>			
06/30/98	\$ 7,840	100.0%	NONE
06/30/99	8,297	99.8%	NONE
06/30/00	8,866	100.6%	NONE
<b>FURS</b>			
06/30/98	\$ 7,094	97.8%	NONE
06/30/99	7,401	99.4%	NONE
06/30/00	7,773	97.8%	NONE
<b>SRS</b>			
06/30/98	\$ 1,919	100.0%	NONE
06/30/99	1,995	104.4%	NONE
06/30/00	2,056	106.8%	NONE
<b>GWPORS</b>			
06/30/98	\$ 706	100.0%	NONE
06/30/99	892	104.4%	NONE
06/30/00	1,069	102.9%	NONE
<b>TRS</b>			
06/30/98	\$44,476	100.0%	NONE
06/30/99	44,987	100.0%	NONE
06/30/00	48,376	100.0%	NONE



## H. Schedules of Funding Progress

### Single Employer Systems

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded AAL(UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
<b>HPORS</b>						
07/01/96	\$47,325	\$67,709	\$ 20,384	69.90%	\$6,242	326.57%
07/01/98	59,531	78,722	19,191	75.62%	6,201	309.48%
07/01/00	77,810	76,397	(1,413)	101.85%	6,952	(20.33)%
<b>JRS</b>						
07/01/96	\$24,944	\$27,723	\$ 2,779	89.98%	\$2,907	95.61%
07/01/98	31,646	29,017	(2,629)	109.06%	3,144	(83.62)%
07/01/00	42,043	27,365	(14,678)	153.64%	3,483	(421.42)%

### Multiple Employer Systems

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded AAL(UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
<b>PERS</b>						
07/01/96	\$1,629,706	\$1,826,207	\$ 196,500	89.24%	\$608,592	32.29%
07/01/98*	2,128,065	2,300,328	172,263	92.51%	660,579	26.08%
07/01/00	2,843,347	2,273,407	(569,940)	125.07%	725,692	(78.54)%
<b>MPORS</b>						
07/01/96	\$ 70,068	\$ 105,664	\$ 35,596	66.31%	\$ 15,828	224.90%
07/01/98	94,908	173,642	78,734	54.66%	17,873	440.52%
07/01/00	129,826	181,109	51,283	71.68%	20,252	253.22%
<b>FURS</b>						
07/01/96	\$ 67,745	\$ 131,111	\$ 63,366	51.67%	\$ 13,783	459.75%
07/01/98	89,988	169,006	79,018	53.25%	15,104	523.15%
07/01/00	123,492	162,329	38,837	76.08%	16,547	235.00%
<b>SRS</b>						
07/01/96	\$ 68,647	\$ 52,751	\$ (15,895)	130.13%	\$ 17,890	(88.85)%
07/01/98	92,160	81,077	(11,083)	113.67%	20,127	(55.06)%
07/01/00	126,338	87,836	(38,502)	143.83%	21,559	(178.59)%
<b>GWPORS</b>						
07/01/96	\$ 18,160	\$ 17,325	\$ (835)	104.82%	\$ 2,762	(30.23)%
07/01/98	23,190	22,412	(778)	103.47%	7,839	(9.92)%
07/01/00	32,966	23,922	(9,044)	137.81%	11,875	(76.00)%
<b>TRS</b>						
07/01/96	\$1,376,716	\$1,939,569	\$562,853	71.0%	\$501,516	112.2%
07/01/98*	1,809,037	2,342,690	533,653	77.2%	529,795	100.7%
07/01/00	2,247,500	2,648,300	400,800	84.9%	537,500	74.6%

\* PERS July 1, 1998 results adjusted by actuary.

\*\* TRS July 1, 1998 results adjusted for 1.5% guaranteed annual benefit adjustment and \$500 minimum benefit for legislation which passed in April 1999 and the new salary scale adopted in November 1998.

Nonemployer Contributor

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability(AAL) Entry Age (b)	Unfunded AAL(UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
VFCA						
07/01/96	\$11,504	\$16,636	\$5,132	\$ 69.15%	N/A	N/A
07/01/98	13,941	18,354	4,413	75.96%	N/A	N/A
07/01/00	17,769	16,752	(1,017)	106.07%	N/A	N/A

7. OTHER POSTEMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 6, Retirement Systems, the following postemployment benefits are provided:

The State provides 18 to 36 months optional postemployment health care benefits in accordance with Public Law 99-272, known as the Federal Consolidated Omnibus Reconciliation Act (COBRA) to the following employees and dependents who elect to continue and pay administratively established premiums: (1) employees who are receiving employee health care benefits at the time they discontinue State employment and (2) dependents who lose dependent eligibility. At June 30, 2000, 129 certificate holders were receiving these benefits.

In accordance with section 2-18-704, MCA, the State also provides optional postemployment health care benefits to the following employees and dependents who elect to continue coverage and pay administratively established premiums: (1) employees who retire under applicable retirement provisions and (2) surviving dependents of deceased employees. Retirement eligibility criteria differ by retirement system (See Note 6). Administratively established medical premiums vary between \$137 and \$349 per month depending on the medical plan selected, family coverage and Medicare eligibility. The State acts as secondary payor for retired Medicare-eligible claimants. As of June 30, 2000, 3,130 retirees were receiving health care benefits.

The State reimburses all validated medical claims less member obligations (annual deductibles and co-payments of the members selected medical plan). Dental claims are reimbursed at 50% to 100% depending on the services provided. The State funds claims on a pay-as-you-go basis. During the fiscal year, expenditures of \$14,725,951 were recognized for postemployment health care benefits. Premium contributions received from former employees amounted to \$9,712,833 leaving \$5,013,118 of claims in excess of premium revenue paid by the State.

In accordance with section 2-18-702, MCA, the Montana University System (MUS) provides postretirement health insurance benefits to eligible employees who receive a retirement benefit from the Teachers Retirement System, Public Employees Retirement System, or an annuity under the Optional Retirement Plan and have been employed by the MUS at least 5 years. Spouses, unmarried dependent children, and surviving spouses are also eligible. Administratively established premiums vary between \$150 and \$440 per month and are revised annually. Medicare eligible plan members are assumed to be Medicare insured. After an annual \$500 deductible for non-Medicare eligible retirees, the MUS plan reimburses 75% of the first \$8,000 in medical claims and 100% thereafter. After a \$350 deductible for Medicare eligible retirees, the plan reimburses 75% for the first \$4,000 in medical claims and 100% thereafter. The plan automatically reduces claim reimbursement for members eligible for Medicare, even if the member is not enrolled in Medicare. As of June 30, 2000, 1,334 retirees were enrolled in the MUS plan. Funding for the retiree health plan is on a pay-as-you-go basis. Based on amounts recorded through June 2000, estimated expenditures of \$5,064,814 were recognized for postemployment health care benefits. Of this amount \$3,271,809 was paid by retirees through premiums and the balance of \$1,793,005 was paid by the MUS.

8. DEFERRED COMPENSATION PLAN

The administration of the State of Montana Deferred Compensation Program was transferred to the PERB effective July 1, 1999. The Deferred Compensation plan is a voluntary, tax-deferred retirement plan designed to supplement State Service Retirement, Social Security and other retirement plans and savings. The State of Montana has offered this plan since 1976. Internal Revenue Service Code (Section 457) and MCA (Title 19, chapter 50) govern the plan. Assets of the deferred compensation plan are required to be held in trusts, custodial accounts or insurance company contracts for the exclusive benefit of participants and their beneficiaries.

All employees of the State, including the Montana University System and contracted employees, are eligible to participate. The compensation deferred is not available to employees until separation from State service, retirement, death, or upon an unforeseeable emergency, when still employed and meeting IRS specified criteria. Participating

employees are able to direct their deferrals into two primary investment options: (1) a "fixed" or stable value option which guarantees both principal (the payroll deferrals) and a quarterly rate of earnings; and (2) a "variable" option which currently consists of twenty-three mutual funds, and five lifestyle/profile funds. Participating employees are allowed to participate in both options and, under the variable option, as many of the offered funds as they choose. As of June 30, 2000, the net assets of the Plan were \$199,302,000.

## 9. RISK MANAGEMENT

There are two Primary Government public entity risk pools and two Component Unit public entity risk pools that are reported within the Enterprise Fund Type: Primary Government pools include Hail Insurance and Subsequent Injury Funds; Component Unit pools include State Compensation Insurance (New Fund) and State Compensation Insurance (Old Fund). Unpaid claims and claim adjustment expenses are estimated based on the ultimate cost of settling the claims including the effects of inflation and other societal/economic factors. There are three Primary Government Other Than Public Entity Risk Pools reported within the Internal Service Fund Type: Group Employees Comprehensive Medical and Dental Plan, Montana University System (MUS) Group Benefits Plan and Property and Casualty Insurance Plans. In all of these funds there are no significant reductions in insurance coverage from the prior year, nor any insurance settlements exceeding insurance coverage. None of these funds have acquisition costs; therefore, no cost is amortized for the period. These funds use the accrual basis of accounting. By statute, these funds cannot invest in common stock. Investments are recorded at fair value. Premiums and discounts are amortized using the straight-line method over the life of the securities.

### A. Public Entity Risk Pools

(1) **Hail Insurance** - Any Montana producer engaged in growing crops subject to destruction or damage by hail may participate in the Hail Insurance program. The Hail Insurance program issued 1622 policies during the 2000 growing season. This fund accounts for premium assessments paid by producers for crop acreage insured, investment and interest earnings, administrative costs and claims paid for hail damage. Depending upon the actuarial soundness of the reserve fund and the damage in a season, producers may receive a premium refund. Anticipated investment income is considered in computing a premium deficiency of which there is none.

A claim must be submitted to the State Board of Hail Insurance within fourteen days of a loss occurrence. The claim must indicate whether the grain is stemming, in the boot, heading out, in the milk, in the stiff dough, ready to bind, or combine. If beans, peas or other crops are damaged, the growth-stage must also be indicated. Inspection of a crop will occur as promptly as possible after claim receipt. The liability on all insured crops expires after October 1. The insurance only covers loss or damage to growing grain which exceeds 5% destruction by hail.

The fund recorded a liability of \$456,585 based on estimated claims through June 30, 2000. Any crop insurance liability is paid to producers within one year of occurrence; therefore, liabilities are not discounted. The fund has no excess insurance, reinsurance, or annuity contracts.

(2) **Subsequent Injury** - This fund provides benefits to workers, certified as disabled at the time of hiring, who are subsequently injured on the job and entitled to benefits under the Workers Compensation or Occupational Disease Act at the time of injury. The liability of the insurer for payment of compensation benefits is limited to 104 weeks of benefits actually paid. This fund will reimburse the insurer for all benefits paid after this 104 week time period. In Montana, there are 2,493 individuals with certified disabilities.

Workers compensation insurance premium experience modification factors are influenced by the 2-year limitation and employers may experience an insurance premium reduction. Therefore, this fund provides employers with a potential incentive for hiring a person with a certified disability.

This fund makes no provision for insured events of the current year. All Montana insurers are annually assessed a percentage of their paid losses sufficient to cover paid losses reimbursed from the fund in the preceding calendar year and the expenses of administration, less other income. An estimated liability is recorded based on a projected cost analysis (case-by-case) of each injured person with a certified disability. As of June 30, 2000, the amount of this liability was estimated to be \$2,279,139.

(3) **State Compensation Insurance (New Fund)** - Liability coverage to employers for injured employees who are insured under the Workers Compensation and Occupational Disease Acts of Montana and workers compensation claims occurring on or after July 1, 1990, are reported in the New Fund. The New Fund must insure any employer who desires coverage. At fiscal year-end, approximately 23,481 employers were insured with the New Fund. Montana state governmental agencies must obtain their workers compensation coverage through the New Fund. Anticipated investment income is considered for computing a premium deficiency and employers must pay premiums to the New Fund within specified time frames.

An actuarial study prepared by Tillinghast-Towers Perrin, as of June 30, 2000, has estimated liabilities and the ultimate cost of settling claims that have been reported but not settled and claims that have been incurred but not

reported. Because actual claim costs depend on such complex factors as inflation and changes in the law, claim liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency, and other economic and societal factors.

A provision for inflation is implicit in the calculation of estimated future claim costs because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. As of June 30, 2000, \$314,900,000 of unpaid claims and claim adjustment expenses was presented at face value. When the New Fund purchases annuity contracts, the claim is settled in full and on a final basis, and all liability of the New Fund is terminated.

The New Fund uses reinsurance agreements to reduce its exposure to large losses. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the fund as direct insurer. The New Fund did not deduct any claim liabilities related to potential reinsurance recoverable. Statute requires the New Fund set premiums at least annually at a level sufficient to ensure adequate funding of the insurance program during the period the rates will be in effect. Statute also requires the New Fund to establish a minimum surplus balance of 25% of annual premium revenue.

(4) **State Compensation Insurance (Old Fund)** - The liability and payment of workers compensation claims for incidents occurring before July 1, 1990 are reported in the Old Fund. Funding for claim payments was accumulated through an Old Fund Liability Tax (OFLT) imposed on employer payroll, employee wages and sole proprietor and subchapter S shareholder distributive income. In 1999, the 56th Legislature determined that the fund was adequately funded and discontinued the OFLT. This fund does not compute a premium deficiency.

An actuarial study prepared by Tillinghast-Towers Perrin, as of June 30, 2000, was used to estimate liabilities and the ultimate cost of settling claims that have been reported but not settled and claims that have been incurred but not reported. At June 30, 2000, \$167,915,000 of unpaid claims and claim adjustment expenses was presented at a net present value of \$117,945,000, discounted at a 5.5% rate. Prior to 1999, the unpaid claims and unpaid claim adjustment expenses were presented at face value. Total Old Fund surplus as of June 30, 2000, was \$18,573,293 compared to \$14,376,735 as of June 30, 1999, for a change of \$4,196,558.

(5) **Changes in Claims Liabilities For the Past Two Years** - As indicated above, these funds establish liabilities for both reported and unreported insured events including estimates of future payments of losses and related claim adjustment expenses. The following tables present changes (in thousands) in those aggregate liabilities during the past two years. All information in these tables is presented at face value and has not been discounted.

<u>Primary Government</u>	<u>Hail Insurance</u>		<u>Subsequent Injury</u>	
	<u>2000</u>	<u>1999</u>	<u>2000</u>	<u>1999</u>
Unpaid claims and claim adjustment expenses at beginning of year	\$ 200	\$ 475	\$2,106	\$1,017
Incurred claims and claim Adjustment expenses:				
Provision for insured events of the current year	2,275	2,221	-	-
Increase (Decrease) in provision for insured events of prior years	259	(129)	406	1,324
Total incurred claims and claim adjustment expenses	2,534	2,092	406	1,324
Payments:				
Claims and claim adjustment expenses attributable to insured events of the current year	(1,818)	(1,762)	-	-
Claims and claim adjustment expenses attributable to insured events of prior years	(459)	(605)	(233)	(235)
Total payment	(2,277)	(2,367)	(233)	(235)
Total unpaid claims and claim adjust. exp. at end of the year	\$ 457	\$ 200	\$2,279	\$2,106

Component Units	State Compensation Insurance (New Fund)		State Compensation Insurance (Old Fund)	
	2000	1999	2000	1999
Unpaid claims and claim adjustments expenses at beginning of year	\$303,500	\$310,687	\$185,064	\$194,401
Incurred claims and claim adjustment expenses:				
Provision for insured events of the current year	74,482	69,390	-	-
Increase (Decrease) in provision for insured events of prior years	(6,049)	(15,791)	(3,728)	3,686
Total incurred claims and claim adjustment expenses	68,433	53,599	(3,728)	3,686
Payments:				
Claims and claim adjustment expenses attributable to insured events of the current year	(13,177)	(14,878)		
Claims and claim adjustment expenses attributable to insured events of prior years	(43,856)	(45,908)	(13,421)	(13,023)
Total payment	(57,033)	(60,786)	(13,421)	(13,023)
Total unpaid claims and claim Adjust. exp. at end of the year	\$314,900	\$303,500	\$167,915	\$185,064

#### (6) Risk Management Trend Information

The following table only presents risk management trend information for the State Compensation Insurance (New Fund). Only the New Fund has a three to five year development cycle contemplated by GASB Statement 10. The State Compensation Insurance (Old Fund) does not charge a premium for its services; its funding source is the old fund liability tax. The Hail Insurance Fund pays claims within a calendar year cycle that parallels the growing season from spring planting to fall harvesting; therefore, it has no three to five year development cycle. State statute limits the payment of claims and the collection of premiums (and penalties) for the Subsequent Injury Fund from any developmental cycle.

The table below illustrates how the earned revenues (net of reinsurance) of the New Fund and its investment income compare to related costs of loss (net of loss assumed by reinsurers) and other expenses assumed by the fund as of the end of the fiscal year (in thousands). Section 3 shows the fund's incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred. Section 4 shows the cumulative amounts paid as of the end of successive years for each policy year. Section 6 shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual reestimation results from new information received on known claims, revaluation of existing information on known claims, as well as emergence of new claims not previously known. Section 7 compares the latest reestimated incurred claims amount to the amount originally established (Section 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of incurred claims currently recognized in less mature policy years. This table will be expanded and revised as data for successive policy years develops.

	State Compensation Insurance (New Fund)				
	1991	1992	1993	1994	1995
<b>1. Premiums and Investment Revenue</b>					
Earned	\$117,443	\$159,499	\$210,725	\$227,455	\$186,580
Ceded	231	270	289	318	269
Net Earned	\$117,212	\$159,229	\$210,436	\$227,137	\$186,311
<b>2. Unallocated expenses including overhead</b>					
	\$ 9,567	\$ 6,663	\$ 7,924	\$ 9,046	\$ 15,147

	<u>State Compensation Insurance (New Fund)</u>				
	1991	1992	1993	1994	1995
3. Estimated losses and expenses end of accident year					
Incurred	\$133,819	\$183,425	\$186,480	\$199,890	\$164,628
Ceded	-	-	-	-	-
Net Incurred	\$133,819	\$183,425	\$186,480	\$199,890	\$164,628

## 4. Net Paid (cumulative) as of:

End of policy year	\$ 17,618	\$ 20,244	\$ 18,347	\$ 18,693	\$ 18,137
One year later	44,335	50,576	46,343	45,947	40,473
Two years later	64,079	68,837	62,717	60,971	52,073
Three years later	74,901	77,950	71,666	67,576	58,722
Four years later	81,747	83,173	76,280	72,212	62,419
Five years later	85,924	86,461	80,165	75,799	65,919
Six years later	88,532	89,370	82,981	78,306	
Seven years later	91,235	91,902	85,357		
Eight years later	93,381	94,131			
Nine years later	95,699				

## 5. Re-estimated ceded losses and expenses

-

	<u>State Compensation Insurance (New Fund)</u>				
	1996	1997	1998	1999	2000
1. Premiums and Investment Revenue					
Earned	\$130,898	\$98,610	\$83,345	\$73,625	\$69,388
Ceded	519	348	303	260	855
Net Earned	\$130,379	\$98,262	\$83,042	\$73,365	\$68,533

## 2. Unallocated expenses including overhead

	\$ 18,234	\$13,454	\$15,266	\$20,355	\$24,823
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## 3. Estimated losses and expenses end of accident year

Incurred	\$ 95,067	\$76,067	\$64,983	\$64,645	\$65,957
Ceded	-	-	-	838	-
Net Incurred	\$ 95,067	\$76,067	\$64,983	\$63,807	\$65,957

## 4. Net Paid (cumulative) as of:

End of policy year	\$ 15,818	\$12,589	\$12,943	\$13,723	\$13,177
One year later	32,890	28,451	28,222	29,976	
Two years later	42,361	35,706	35,753		
Three years later	47,283	39,680			
Four years later	50,267				
Five years later					
Six years later					
Seven years later					
Eight years later					
Nine years later					

## 5. Re-estimated ceded losses and expenses

	1,183	3,521	1,414	882	-
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	<u>State Compensation Insurance (New Fund)</u>				
	1991	1992	1993	1994	1995
6. Re-estimated net incurred losses and expense:					
End of policy year	\$133,819	\$183,425	\$186,480	\$199,890	\$164,628
One year later	166,980	184,968	184,030	184,920	124,123
Two years later	160,272	175,218	167,052	135,472	107,074
Three years later	151,554	161,184	133,017	116,756	95,456
Four years later	141,389	135,775	120,583	107,656	94,517
Five years later	130,250	125,084	111,208	105,052	92,231



	State Compensation Insurance (New Fund)				
	1991	1992	1993	1994	1995
Six years later	121,568	119,780	109,415	106,039	
Seven years later	118,856	120,472	111,683		
Eight years later	118,948	120,397			
Nine years later	118,489				

7. Increase (decrease) in estimated net incurred losses and expenses from end of policy year

(\$15,330) (\$63,028) (\$74,842) (\$93,851) (\$72,397)

	State Compensation Insurance (New Fund)				
	1996	1997	1998	1999	2000
6. Re-estimated net incurred losses and expense:					
End of policy year	\$95,067	\$76,067	\$64,983	\$63,807	\$65,957
One year later	88,923	67,235	64,308	64,348	
Two years later	77,286	59,054	60,467		
Three years later	73,864	60,811			
Four years later	74,022				
Five years later					
Six years later					
Seven years later					
Eight years later					
Nine years later					
7. Increase (decrease) in estimated net incurred losses and expenses from end of policy year	(\$21,045)	(\$15,256)	(\$4,516)	541	-

**B. Other Than Public Entity Risk Pools**

(1) **Group Employee Comprehensive Medical and Dental Plan** - This plan is fully self-insured with the State assuming the risk for claims incurred by employees of the State, elected officials, retirees and their dependents, with four exceptions. The three outside insured products are: vision care insured by the Vision Service Plan, the Yellowstone Community Health Plan, an insured community health option (CHO) available to state employees in four counties in the Billings area and the New West Plan, an insured CHO available to state employees in 25 counties in the Missoula, Deer Lodge, Helena, Billings, Dillon and Havre areas. Premiums are collected through payroll deductions, deductions through the Public Employees Retirement Division, and self-payment and are recorded as revenue in the Employees Group Benefits Internal Service Fund. At June 30, 2000, estimates for claims liabilities, which include incurred but not reported claims, were \$7,080,097 based on a formula provided by Buck Consultants, a consulting actuarial firm. A liability is reported in the accompanying financial statements for these estimated claims.

(2) **Montana University System (MUS) Group Benefits Plan** - This plan was authorized by the Regents to provide medical, dental, and vision insurance coverage to employees of the Montana University System, the Montana Higher Education Student Assistance Corporation (MHESAC), and the State Bar of Montana, as well as their dependents, retirees, and COBRA members. The MUS Group Benefits Plan is fully self-insured. Blue Cross/Blue Shield is the claims administrator on the plan. Managed Care Montana (VRI) has a contract for utilization management. The utilization management program consists of hospital pre-authorization, case management and medical necessity review. Premiums are collected from employees through payroll deductions and recorded in the MUS Group Insurance Internal Service Fund. The claims liability is calculated by Buck Consultants and estimated to be \$2,270,533 as of June 30, 2000, based on prior year experience. A liability is reported in the accompanying financial statements for these estimated claims.

(3) **Property & Casualty Insurance Plans** - This self-insurance plan provides coverage for general liability, automobile liability, automobile physical damage, foster care liability and State-administered foreclosure housing units. The State self-insures the \$150,000 deductible per occurrence for most property insurance as well as various deductible amounts for other state property. The State also self-insures against losses of property below \$150,000 of value, with State agencies paying the first \$1,000. Commercial property insurance protects approximately \$2.1 billion of State-owned buildings and contents. The State property insurance includes separate earthquake and flood protection coverage (each in the amount of \$100 million) with deductibles of \$1 million for earthquake and \$500,000 for flood per occurrence. Premiums are collected from all State agencies including Component Units and recorded as revenue in the Administration Insurance Internal Service Fund.

An annual actuarial study, prepared by Tillinghast-Towers Perrin Company, and issued for the accident period July 1, 1991, through June 30, 2000, is the basis for estimating the liability for unpaid claims and is supported by historical

loss data. The June 30, 2000, estimated claims liability of \$25,346,068, discounted and assumes an annual rate of return of 4%, including those claims incurred but not reported, and is reported in the accompanying financial statements.

(4) **Changes in Claims Liabilities For the Past Two Years** - These funds establish liabilities for both reported and incurred but not reported claims. The following table presents changes in the balances of claims liabilities during the past two fiscal years (in thousands):

	<b>Group Employees Medical &amp; Dental</b>		<b>MUS Group Benefits</b>		<b>Prop. &amp; Casualty Insurance</b>	
	<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>
Amount of claims liabilities at the beginning of each fiscal year	\$ 6,903	\$ 6,501	\$ 1,878	\$ 1,942	\$17,100	\$13,771
Included claims:						
Provision for insured events of the current year	48,724	46,100	24,380	19,710	5,784	4,997
Increases (Decreases) in provision for insured events of prior years	177	402	393	(64)	12,128	4,438
Total incurred claims	48,901	46,502	24,773	19,646	17,192	9,435
Payments:						
Claims attributable to insured events of the current year	(48,724)	(46,100)	(19,710)	(19,710)	(1,237)	(562)
Claims attributable to insured events of prior years	-	-	-	-	(8,428)	(5,544)
Total Payments	(48,724)	(46,100)	(24,380)	(19,710)	(9,665)	(6,106)
Total claims liability at end of each fiscal year	\$ 7,080	\$ 6,903	\$ 2,271	\$ 1,878	\$25,347	\$17,100

#### 10. COMMITMENTS

**A. Highway Construction** - At June 30, 2000, the Department of Transportation had contractual commitments of approximately \$136.3 million for construction of various highway projects. Funding for these highway projects is to be provided from federal grants and matching state special revenue funds.

**B. Capital Construction** - At June 30, 2000, the Department of Administration, Architecture & Engineering Division, had commitments of approximately \$17.2 million for capital projects construction. The Primary Government will fund \$16.1 million of these projects with the remaining \$1.1 million coming from higher education funds.

**C. Proprietary Fund Commitments** - Budgets are administratively established in the Enterprise and Internal Service Funds, excluding depreciation, compensated absences and bad debt expense. Appropriations may be committed for goods/services that are not received as of fiscal year-end. These executory commitments are included in unreserved retained earnings in the accompanying financial statements as follows (in thousands):

<b>Primary Government</b>	<b>Amount</b>
<b><u>Enterprise Funds</u></b>	
Liquor Warehouse	\$ 26
Hail Insurance	26
Subtotal-Enterprise Funds	\$ 52
<b><u>Internal Service Funds</u></b>	
Highway Equipment	\$6,679
FWP Equipment	27
ISD	754
Bad Debt Division	1
Administration Insurance	2
Administration Supply	73
Publications & Graphics	14
Buildings & Grounds	171
Labor Central Services	52



Primary Government	Amount
Commerce Central Services	42
DEQ Indirect Cost Pool	55
FWP Warehouse Inventory	16
Justice Legal	1
LGA Administration	2
Subtotal-Internal Service Funds	\$7,889
Total-Primary Government	\$7,941
<b>Component Units</b>	
State Compensation Ins - New Fund	302
Total-Proprietary Fund Types-Reporting Entity	\$8,243

#### 11. LEASES/INSTALLMENT PURCHASES PAYABLE

The State has entered into various capital and operating leases for land, buildings, equipment and computer software. Lease contracts are required by law to contain a clause indicating continuation of the lease is subject to funding by the Legislature. It is expected that in the normal course of operations most of these leases will be replaced by similar leases.

A. Capital Leases/Installment Purchases - Changes in capitalized leases/installment purchases are as follows (in thousands):

	Balance July 1, 1999	Additions (Deductions)	Balance June 30, 2000
<b>Primary Government</b>			
General Long-Term Obligations	\$ 1,380	\$ 1,621*	\$3,001
Proprietary Fund Types			
Enterprise Fund	\$ 5,025	\$(5,025)	\$ -
Internal Service Fund	4,728	(1,858)	2,870
Total Proprietary	9,753	(6,883)	2,870
Total-Primary Government	\$11,133	\$(5,262)	\$5,871
<b>Component Units</b>			
State Fund	\$ -	\$ 42	\$ 42
Pension Trust Fund	227	1,932	2,159
Higher Education Funds	1,157	229	1,386
Total-Component Units	\$ 1,384	\$ 2,203	\$3,587
<b>Total Capitalized Leases/ Installment Purchases</b>	<b>\$12,517</b>	<b>\$(3,058)</b>	<b>\$9,458</b>

\*This amount consists of \$847,000 of additions as inceptions; \$2,236,000 of additions as adjustments; and \$(1,462,000) as deductions.

Future minimum lease payments under capital leases/installment purchases are as follows (in thousands):

Fiscal Year Ending June 30	Primary Government		Component Units				Totals
	General Long-Term Obligations	Proprietary Fund Types		State Fund	Pension	Higher Education Funds	
		Enterprise	Internal Service				
2001	\$ 974	\$-	\$1,849	\$ 11	\$ 432	\$ 533	\$ 3,799
2002	870	-	855	11	432	453	2,621
2003	518	-	266	11	432	380	1,607
2004	471	-	57	11	432	115	1,086
2005	69	-	1	8	432	35	545

Fiscal Year Ending June 30	Primary Government			Component Units			Totals
	General Long-Term Obligations	Proprietary Fund Types		State Fund	Pension	Higher Education Funds	
		Enterprise	Internal Service				
2006+	386	-	-	-	400	-	786
Total minimum pmts	\$3,288	\$-	\$3,027	\$52	\$2,560	\$1,516	\$10,443
Less: Interest	287	-	157	10	401	130	985
Present value of minimum payments	\$3,001	\$-	\$2,870	\$42	\$2,159	\$1,386	\$ 9,458

B. Operating Leases - Total rental payments of primary government and component units for operating leases in fiscal year 2000 were \$6,824,000 and \$469,000, respectively. Future rental payments under operating leases are as follows (in thousands):

Fiscal Year Ending June 30	Primary Government	Component Units	Totals
2001	\$ 7,620	\$374	\$ 7,994
2002	5,999	238	6,237
2003	4,771	98	4,869
2004	4,271	62	4,333
2005	3,993	50	4,043
2006+	22,977	12	22,989
Total future rental payments	\$49,631	\$834	\$50,465

## 12. STATE DEBT

A. General Information - The State has no constitutional limit on its power to issue obligations or incur debt other than a provision that no debt may be created to cover deficits incurred because appropriations exceeded anticipated revenues. The Board of Examiners (consisting of the Governor, Secretary of State and Attorney General) is authorized, pursuant to various enabling acts, to issue bonds and notes of the State.

B. Short-Term Debt - The Board of Examiners, upon recommendation of the Department of Administration, may issue notes in anticipation of the receipt of taxes and revenues. No notes may be issued to refund outstanding notes. The notes must be redeemed by the end of the fiscal year in which issued.

The Board of Investments (BOI) of the State of Montana is authorized to issue Municipal Finance Consolidation Act Bonds which may not aggregate more than \$75 million. The purpose of the bonds is to provide funds for the BOI to make loans to eligible local government units. The bonds are not in any way a debt or liability of the State of Montana. The bonds are limited obligations of the BOI payable solely from repayments of principal and interest on loans made by the BOI to participating local government units, investment income under the indenture and an irrevocable pledge by the BOI. The BOI has no taxing power. Bondholders may elect to have their bonds purchased by the Trustee on March 1 of each year until maturity. These issues are considered to be demand bonds and have been classified as short-term debt. The amounts issued and outstanding at June 30, 2000, were as follows (in thousands):

Series	Amount Issued	Balance June 30, 2000
1991	\$ 5,000	\$ 4,650
1992	6,500	6,165
1994	7,500	7,140
1995	7,500	7,310
1997	10,000	9,915
1998	12,500	12,430
2000	1,500	1,500
Total		\$49,110

C. Long-Term Debt - The full faith, credit and taxing powers of the State are pledged for the payment of all general obligation debt. Revenue bonds and mortgage bonds are secured by a pledge from the facilities to which they relate and by certain other revenues, fees and assets of the State and the various colleges and universities. Long-term debt

(excluding bonds/notes of Enterprise Funds and Internal Service Funds discussed elsewhere in this footnote: Leases - Note 11 and Compensated Absences - Note 1) of the State at June 30, 2020, was as follows (in thousands):

General Obligation Debt	Series	Amount Issued	Interest Range (%)	Principal Payments		Balance June 30, 2020
				FY 2001	In Year of Maturity (13)	
Long-Range Bldg Program	1985A	\$ 8,550	8.0	\$ 150	\$ 150 (2001)	\$ 150
Water Development Program (1)	1989B	500	8.55	25	50 (2010)	350
Water Development Program (1)	1991A	750	8.0	50	90 (2007)	480
Wastewater Treatment Works	1991B	2,595	6.0-6.8	95	215 (2014)	2,060
GO Refunding	1992	31,330	5.25-6.2	380	390 (2010)	4,250
Energy Conservation Program (2)	1993A	1,500	4.4-4.75	160	180 (2004)	675
Long-Range Bldg Program	1993B	3,185	4.0-4.25	265	310 (2004)	1,140
Renewable Resource Development (1)	1993C	750	5.25-5.65	80	95 (2004)	350
Long-Range Bldg Program	1994A	22,540	4.2-6.0	925	1,725 (2014)	17,820
Wastewater Treatment Works	1994B	2,200	4.9-6.1	80	180 (2016)	1,925
Long-Range Bldg Program	1994C	21,955	5.125-7.0	815	1,000 (2005)	4,520
Energy Conservation Program (2)	1994D	1,600	5.125-5.5	160	200 (2005)	900
Renewable Resource Development (1)	1994E	750	7.7-8.1	75	105 (2005)	445
Energy Conservation Program (2)	1996A	1,650	4.0-4.4	155	195 (2006)	1,050
Renewable Resource Development (1)	1996B	1,250	5.75-6.1	115	155 (2006)	810
Wastewater Treatment Works	1996C	2,765	4.55-5.75	105	120 (2017)	2,505
Long-Range Bldg Program	1996D	30,075	5.75-6.0	1,050	2,370 (2017)	27,230
Renewable Resource Development (1)	1996E	1,000	6.95-7.75	90	130 (2007)	765
Renewable Resource Development (1)	1997A	2,000	6.8-8.0	90	210 (2013)	1,835
Long-Range Bldg Program	1997B	12,640	4.6-5.0	700	595 (2018)	11,315
Wastewater Treatment Works	1998A	3,510	3.9-5.15	120	260 (2019)	3,395
Long-Range Bldg Program	1998B	34,545	3.7-4.85	1,225	2,555 (2018)	32,170
Information Technology	1998C	41,390	4.5-5.0	4,595	4,075 (2008)	32,630
Long-Range Bldg Program	1998D	14,855	4.4-5.0	90	1,720 (2015)	14,550
Energy Conservation Program (2)	1998E	1,250	4.05-4.6	110	150 (2008)	1,025
Renewable Res. Prgm Loans-Taxable	1999	1,035	6.0-6.5	45	105 (2015)	1,035
Long-Range Bldg Program	1999C	16,990	4.0-5.0	580	1,250 (2019)	16,220
Drinking Revolving Fund (10)	1998F	3,065	3.6-4.85	110	230 (2019)	3,065
Renewable Resource Development (1)	2000	1,107	4.0	50	106 (2020)	1,107
Drinking Water Revolving Fund (10)	2000A	2,990	4.25-5.6	-	240 (2021)	2,990
Pollution control Revolving Fund (10)	2000B	3,325	4.25-5.6	-	270 (2021)	3,325
Long-Range Bldg Program	2000C	17,195	5.0-5.5	1,275	1,320 (2019)	17,195
Information Technology	2000D	18,000	5.25	1,960	2,250 (2010)	18,000
Information Technology	2000E	800	5.6	280	270 (2003)	800
Renewable Resource Development (1)	2000F	187	4.0	43	55 (2003)	187
Total General Obligation Debt		\$309,829		\$16,048		\$228,269
Special Revenue Bonds						
Water Conservation (3)	-	\$ 50	5.0	\$ 2	\$ 1 (2012)	\$ 25
Broadwater Power Project (4)/(6)	1990A	3,800	9.5	465	505 (2002)	970
Broadwater Power Project (4)/(5)	1991A	21,735	6.4-6.875	-	2,135 (2018)	21,735
Water Development Program (4)	1992A	11,955	5.4-6.1	935	1,000 (2006)	6,265
Water Development Program (4)	1992B	9,375	5.2-6.0	375	795 (2013)	7,215
Department of Transportation	1993	72,375	4.9-5.05	11,885	3,705 (2004)	41,155
Renewable Resource Program (4)	1996A	14,985	4.25-5.2	1,015	110 (2017)	11,300
Renewable Resource Program (4)	1997A	1,205	6.5-7.3	35	110 (2017)	1,145
Renewable Resource Program (4)	1997B	2,660	4.3-5.375	85	210 (2017)	2,495
Developmental Center Project (9)	1994	13,100	5.3-6.4	335	1,015 (2019)	11,780
State Hospital Project (9)	1997	25,915	4.15-5.0	680	1,820 (2022)	25,260
Total Special Revenue Bonds		\$177,155		\$15,812		\$129,345
Middle Creek Dam Project (7)	\$ 2,990	8.125	\$ 35	124 (2034)	\$ 3,061	
Treasure State Endowment (6)	4,134	5.85	778	778 (2001)	778	
Tongue River Dam Project (12)	11,300	-	290	290 (2039)	11,010	
Dept. Of Justice INTERCAP Loan (11)	500	5.6	50	50 (2007)	350	
Dept. Of Environmental Quality INTERCAP Loan (11)	1,212	5.6	109	75 (2008)	960	

Special Revenue Bonds	Series	Amount Issued	Interest Range (%)	Principal Payments		Balance June 30, 2000
				FY 2001	In Year of Maturity (13)	
Dept. Of Corrections Resident Accounting System Loan (14)		320	5.73	57	71 (2005)	320
Natural Resrc. Damage Lit. Pgm. (15)		530	-	-	-	530
Total Notes Payable		<u>\$ 20,986</u>		<u>\$ 1,319</u>		<u>\$ 17,009</u>
Total Special Revenue Debt						<u>\$146,354</u>

- (1) All Water Development Program Bonds and the Renewable Resource Development Bonds are secured additionally by a pledge of, and payable from, certain coal severance taxes. Series 1988, 1989B, 1991A and 1993C bonds are also secured by a pledge of loan repayments from loans made from the bond proceeds.
- (2) Bonds issued for financing the design, construction and installation of energy conservation projects at various State buildings.
- (3) Bonds sold to Farmers Home Administration.
- (4) Issued by the Department of Natural Resources and Conservation (DNRC) and backed by a pledge of coal severance taxes and project revenues.
- (5) First payment of \$795,000 is due in 2003.
- (6) Bonds were sold to the Montana Board of Investments.
- (7) U.S. Bureau of Reclamation loan to Montana Department of Natural Resources & Conservation. The outstanding balance includes \$257,748 of interest owed.
- (8) Board of Investments Treasury State Endowment loan from the Coal Tax Trust Fund to the State of Montana Department of Commerce.
- (9) Montana Health Facility Authority Loan to the Department of Public Health and Human Services for the Montana Developmental Center Project and the Montana State Hospital Project.
- (10) Provide matching funds to enable the State to obtain capitalization grants from the U.S. Environmental Protection Agency for water system development loans to state political subdivisions.
- (11) Montana Board of Investments loans to Departments from the INTERCAP loan program.
- (12) Northern Cheyenne Tribe loan to the Montana Dept. of Natural Resources & Conservation (DNRC). The loan will not accrue interest and will be repaid over 39 years. Loan repayment is secured by the issuance of a coal severance tax bond to the tribe.
- (13) Year of Maturity refers to fiscal year.
- (14) Norwest loan to provide funds for the development of a Y2K compliant resident accounting system.
- (15) Board of Investments loan to the Department of Justice for the Natural Resource Damage Litigation Program. Loan repayment is secured by a pledge of amounts to be recovered in the ongoing litigation with Atlantic Richfield Company.

Board of Regents Issues Higher Education Units- Component Unit	Series	Amount Issued	Interest Range (%)	Principal Payments		Balance June 30, 2000
				FY 2001	In Year of Maturity	
University of Montana-Missoula (U of M)	1993A/1998E 1999F	\$110,816	3.8-5.8	\$2,095	\$ 760 (2026)	\$ 101,193
Montana State University-Bozeman (MSU)	1987A/1993A 1996D/1996B					
	1998E/1998F	87,677	3.90-8.0	3,065	5,590 (2022)	77,412
Montana Tech of the U of M	1995C/1998E 1999F	17,208	4.0-5.75	380	932 (2024)	13,001
MSU – Billings	1996D/1998F	18,955	3.9-5.625	560	1,070 (2026)	17,170
MSU – Northern	1994C/1998F	3,450	3.9-6.0	175	100 (2015)	2,775
Western Montana College of the U of M (WMC)	1993A/1998 1999F	7,846	4.0-5.75	85	858 (2024)	7,398
Helena College of Technology of the University of Montana (HCT)	1999F	<u>757</u>	4.15-5.75	<u>5,489</u>	85 (2024)	<u>749</u>
		<u>\$246,709</u>		<u>\$11,849</u>		<u>\$219,698</u>
Add: Unamortized Premium						18
Less: Unamortized Discount						<u>(2,269)</u>
Total Higher Education Bonded Debt						<u>\$217,447</u>

**Board of Regents Issues**
**Higher Education Units-  
Component Unit**

Series	Amount Issued	Interest Range (%)	Principal Payments		Balance June 30, 2000
			FY 2001	In Year of Maturity	

**Higher Ed Nonbonded Debt**

U of M - Missoula, Bookstore Note	\$ 500	Variable	\$ -	\$ 500 (2005)	\$ 500
U of M - Missoula, INTERCAP Program Note	1515	Variable	236	53 (2010)	1,269
U of M - First Interstate Mortgage	281	8.5	7	28 (2017)	263
U of M - Montana College of Technology INTERCAP Program Note	541	Variable	89	27 (2007)	539
MSU - Bozeman, Fiber Note	746	5.9	159	98 (2001)	256
MSU - Bozeman, INTERCAP Program Note	1467	Variable	170	9 (2010)	1,404
MSU - Bozeman, Athletics Dept	78	5.48	17	17 (2001)	17
MSU - Bozeman, Information Tech Center	58	5.31-5.54	19	16 (2002)	38
MSU - Bozeman, Media & Theater Arts	44	5.63	9	10 (2002)	19
MSU - Bozeman, Renne Library	371	4.95-5.34	102	33 (2003)	210
MSU - Bozeman, Physics Dept	22	4.95	8	8 (2001)	8
MSU - Bozeman, University Relations	9	4.95-6.24	3	2 (2002)	4
MSU - Bozeman, Burns Center	32	6.24	10	11 (2002)	21
MSU - Bozeman, Call Center	69	5.34	22	21 (2002)	45
MSU - Billings, INTERCAP Program Note	391	Variable	34	7 (2010)	359
MSU - Billings, Athletic Note	20	8.7	5	6 (2003)	16
MSU - Yucca Escrow	85	7.75	17	7 (2005)	85
MSU - Northern, INTERCAP Program Note	1,579	Variable	167	28 (2007)	950
MSU - Northern, Athletic Van Note	13	6.5	2	2 (2005)	10
MSU - Northern, Voice Mail Note	49	6.5	-	18 (2002)	49
MSU - Northern, Student Services Loan	24	6.5	-	5 (2005)	24
MSU - College of Technology, Great Falls INTERCAP Program Note	28	Variable	9	5 (2003)	24
MSU - College of Technology, Great Falls, Note	100	5.38	22	22 (2001)	22
Total Higher Education Nonbonded Debt	<u>\$ 8,022</u>		<u>\$ 1,107</u>		<u>\$ 6,132</u>

**Total Higher Education Funds**
\$223,578

**Debt service requirements** (principal and interest) for long-term notes/bonds payable reported in the General Long-Term Obligations Account Group and Higher Education Funds are as follows (in thousands):

Fiscal Year Ending June 30	General Obligation Debt	Special Revenue Bonds	Higher Ed Bonded Debt	Non- Bonded Debt	Total Requirements
2001	\$ 26,327	\$ 22,560	\$ 20,120	\$ 3,282	\$ 72,289
2002	25,356	22,530	20,260	1,694	69,840
2003	24,805	22,725	20,153	1,449	69,132
2004	23,508	12,913	20,128	1,480	58,029
2005	22,853	9,102	20,035	1,129	53,119
2006+	197,913	95,056	318,671	21,411	633,051
Totals	<u>\$320,762</u>	<u>\$184,886</u>	<u>\$419,367</u>	<u>\$30,445</u>	<u>\$955,460</u>

**A summary of changes in long-term liabilities payable** reported in the General Long-Term Obligations Account Group for the fiscal year ending June 30, 2000, was as follows (in thousands):

	Balance July 1, 2000	Additions(1)	Reductions	Balance June 30, 2001
Early Retirement Benefits	\$ 231	\$ 83	\$ 87	\$ 227
Arbitrage Rebate Tax	807	218	-	1,025
General Obligation Debt	197,020	43,604	12,355	228,269
Special Revenue Debt	163,348	1,130	18,124	146,354
Totals	<u>\$361,406</u>	<u>\$45,035</u>	<u>\$30,566</u>	<u>\$375,875</u>

Auditor's Report & Findings

Corrective Action Plan

Summary Schedule of Prior  
Audit Findings

(1) Loan and Bond Proceed amounts recorded in the financial statements for General Obligation and Special Revenue Debt include the effects of bond discounts and premiums. The additions in long-term debt include new issues of bonds and loans with a face value of \$44,768,984 that were issued at par. Proceeds of \$800,000 for the Series 2000E Information Technology General Obligation Bonds have been recorded by the Montana University System, a component unit of the State of Montana.

**D. Early Retirement Benefits Note** - The 1993 Montana State Legislature granted an early retirement incentive. The incentive consisted of an additional three years of employer and employee contributions paid by the employer agency to the State of Montana Public Employees Retirement System. The payments may be made over a period of time not to exceed ten years at an interest rate of 8%. Debt Service requirements are as follows (in thousands):

	Principal Payments		Balance June 30, 2000
	FY 2001	In Year of Maturity	
Primary Government:			
General Obligation Debt	\$45	\$47	\$227
Component Unit:			
Higher Education Units	9	10	38
Total	\$54	\$57	\$265

#### **E. Refunded and Early Retired Bonds**

During fiscal year 2000, the Department of Natural Resources and Conservation (DNRC) used current available resources to retire early \$345,000 of Series 1988A Water Development Program General Obligation Bonds, \$790,000 of Series 1988A Water Development Program Revenue Bonds and to pre-pay \$250,000 of Series 1992A Water Development Program Revenue Bonds.

On November 12, 1999, The University of Montana, a Component Unit of the State of Montana, issued \$69,240,000 of Series F 1999 Revenue Bonds with interest ranging from 3.80% to 6.00%. The proceeds from the issue were used for the purpose of restructuring Series 1995B, 1995C, and 1996D Facilities Improvement Revenue Bonds, and for the acquisition, construction, remodeling, improvement and equipping of certain facilities and properties at the various University of Montana campuses. The University issued \$58,205,000 of the Series F 1999 Revenue Bonds to advance refund and restructure \$58,609,000 of outstanding Series 1995B, 1995C, and 1996D Facilities Improvement Revenue Bonds with an average interest rate of 5.2%. Series 1995B and 1996D were entirely advanced refunded and all but \$4,545,000 of the Series 1995C was advanced refunded. The advanced refunded bonds are considered legally defeased and as a result, the liability for those bonds has been removed from the Net Investment In Plant of Indebtedness sub-fund group in the Plant Funds. The debt service cash flows for Series F 1999 Revenue Bonds exceeded the debt service cash flows for the advance refunded bonds by approximately \$23 million. The net economic loss for the University from the advance refunding was approximately \$813,000.

During fiscal year 2000, the Housing Authority Board issued \$147,695,000 of Single Family bonds. Series 1999A was issued on August 4, 1999 in the amount of \$60,000,000 and Series 2000A was issued on March 8, 2000, in the amount of \$87,695,000. In conjunction with the issuance of the 1999A bonds, the Board refunded the 1989A bond issue on October 1, 1999. Single Family bond issue Series 2000A refunded the 1990A and 1990B bond issues. The Housing Authority deferred \$449,400 of costs related to the refunding of the 1989A, 1990A and 1990B bonds. The refunding of the 1989A bonds resulted in an economic gain of \$1,165,513 and difference in cash flows of \$547,672. The refunding of the 1990A and 1990B bonds resulted in an economic gain of \$1,525,893 and difference in cash flows of \$1,272,241.

In prior years, the State of Montana and the Board of Regents of Higher Education have issued general obligation and revenue refunding bonds, the proceeds of which were used to defease certain bond issues already outstanding. The proceeds of the refunding issues were placed in escrow accounts and invested in U.S. Treasury Obligations that, together with interest earned thereon, will be sufficient for future payment of principal and interest on the refunded issues. Accordingly, the debt is considered defeased for financial reporting purposes and the liability for the defeased bonds is not included in the financial statements. At June 30, 1999, the in-substance defeased bonds outstanding was as follows (in thousands):

General Obligation	\$10,830
Higher Education Revenue	31,390
Total	\$42,220



## F. Propriety & Pension Funds

(1) **Economic Development & Municipal Finance Consolidation Act Bonds (EDB)** - This program is directed by the nine-member Board of Investments which is attached to the Department of Commerce for administrative purposes. This program assists Montana's small businesses and local governments in obtaining long-term, fixed rate financing through private Montana lending institutions. Outstanding obligations are as follows (in thousands):

Program	Series	Amount Issued	Interest Rate (%)	Principal Payments		Balance June 30, 2000
				FY 2001	In Year of Maturity	
Municipal Finance Consolidation Act Bonds (Irrigation Program) (a)	1988	\$ 4,976	6.60-7.75	\$495	\$130 (2014)	\$ 3,024
Municipal Finance Consolidation Act Bonds (School District Pooled Refunding Program) (b)	1991	6,234	4.75-6.5	398	294 (2005)	1,547
<b>Total Bonds Payable</b>		<b>\$11,210</b>		<b>\$893</b>		<b>\$4,571</b>
Conservation Reserve Enhancement Program (CRP Notes) (c)		10,982	6.90-9.92	1,196	331 (2009)	10,983
<b>Total Bonds/Notes Payable</b>		<b>\$22,192</b>		<b>\$2,089</b>		<b>\$15,554</b>

- (a) These bonds were issued to obtain funds for the Board of Investments, State of Montana, to purchase the refunding bonds of participating Irrigation Districts for the purpose of prepaying the U.S. Department of Interior, Bureau of Reclamation Projects Loans. The Irrigation Bonds and the interest thereon are payable solely from the collection of a special tax or assessment which is a lien against real property in the Irrigation District. The Irrigation Bonds are not obligations of the State of Montana. However, the Irrigation Bonds are limited obligations of the Board of Investments due to an irrevocable pledge to lend money for deposit by the Trustee of the Irrigation District Pooled Loan Program Reserve Account E in an amount equal to any deficiencies therein on any payment date. The indenture does not permit the issuance of additional bonds.
- (b) These bonds were issued for the purpose of providing funds for the Board of Investments, State of Montana, to purchase the general obligation refunding bonds of participating Montana School Districts. The School District Refunding Bonds and the interest thereon are payable from real property taxes levied within the school district. These bonds are limited obligations of the Board of Investments, and are not a debt or liability of the State of Montana, and neither the faith and credit nor the taxing power of the State is pledged to the payment of principal or of interest on the bonds.
- (c) These bonds and notes were issued for the purpose of providing funds for the Board of Investments, State of Montana, to make loans to participating farmers and ranchers under its Conservation Reserve Enhancement Program. The Series 1991 Bonds are not in any way a debt or liability of the State of Montana, and neither the full faith and credit, nor the taxing power of the State of Montana is pledged to the payment of the principal or of interest on the Series 1991 Bonds. However, the 1991 Bonds are limited obligations of the Board of Investments. The Bond Anticipation Notes (BAN), which matured on November 15, 1992, were reissued to correspond with maturities per the underlying loans. On November 15, 1994, eleven BANs were reissued to comply with statutory requirements limiting the maturity of notes to five years from issuance date. The outstanding BANs as of November 15, 1996 were reissued as loans to comply with statutory requirements. The board now issues CRP bonds for the duration of the CRP contract purchased.

**Debt service requirements (principal & interest) for EDB are as follows (in thousands):**

2001	2002	2003	2004	2005	2006+	Totals
\$3,175	\$2,998	\$2,877	\$2,723	\$2,492	\$6,601	\$20,866

(2) **Internal Service Bonds/Notes Payable** - State agencies may obtain long-term financing for Internal Service Funds through the Board of Investments INTERCAP loan program. Outstanding obligations at June 30, 2000, follow (in thousands):

Department	Amount Issued	Interest Rate (%)	Principal Payments		Balance June 30, 2000
			FY 2001	In Year of Maturity	
Department of Transportation - Motor Pool	\$9,954	5.6	\$2,001	\$758 (2004)	\$6,007
<b>TOTAL BONDS/NOTES PAYABLE</b>	<b>\$9,954</b>		<b>\$2,001</b>		<b>\$6,007</b>

Debt service requirements (principal & interest) for Internal Service Funds are as follows (in thousands):

2001	2002	2003	2004	2005	2006+	Total
\$2,274	\$2,010	\$1,239	\$758	\$-	\$-	\$6,281

(3) **Pension Trust Fund Bonds/Notes Payable** - State agencies may obtain long-term financing for Pension Trust Funds through the Board of Investments INTERCAP loan program. Outstanding obligations at June 30, 2000, follow (in thousands):

Department	Amount Issued	Interest Rate (%)	Principal Payments		Balance June 30, 2000
			FY 2001	In Year of Maturity	
Public Employees Retirement System (a Component Unit of the State of Montana)	\$430	5.6	\$-	\$72 (2009)	\$430
<b>Total Bonds/Notes Payable</b>	<b>\$430</b>		<b>\$-</b>		<b>\$430</b>

Debt service requirements (principal & interest) for Pension Trust Funds are as follows (in thousands):

2001	2002	2003	2004	2005	2006+	Total
\$16	\$-	\$51	\$55	\$58	\$266	\$446

(4) **Enterprise Fund Notes Payable** - State agencies may obtain long-term financing for Enterprise Funds. Outstanding obligations at June 30, 2000, were as follows (in thousands):

Department	Amount Issued	Interest Rate (%)	Principal Payments		Balance June 30, 2000
			FY 2001	In Year of Maturity	
Montana State Lottery (administered by the Department of Commerce)	\$5,025	5.12	\$953	\$1,110 (2004)	\$4,120
<b>Total Bonds/Notes Payable</b>	<b>\$5,025</b>		<b>\$953</b>		<b>\$4,120</b>

Debt service requirements (principal & interest) for Enterprise Funds are as follows (in thousands):

2001	2002	2003	2004	2005	2006+	Total
\$1,146	\$1,146	\$1,146	\$1,146	\$-	\$-	\$4,584

(5) **Board of Housing (BOH) (Housing Authority) - Component Unit - Revenue Bonds** - The Montana Board of Housing is authorized to have an aggregate of \$975 million of housing mortgage bonds outstanding. The bonds are payable from mortgage loan repayments and investment earnings. All bonds issued to date are secured by federally insured or guaranteed mortgages. Statutory provisions exist wherein the Governor shall include in the executive budget submitted to the legislature the sum required to fund possible future deficiencies in required reserves; however, the legislature is not legally required to appropriate funding for such deficiencies. None of the outstanding bonds were issued under these provisions. BOH Revenue Bonds (net) outstanding at June 30, 2000, were as follows (in thousands):



Program	Series	Amount Issued	Interest Rate (%)	Principal Payments		Balance June 30, 2000
				FY 2001	In Year of Maturity	
Single Family I	1997A	\$ 91,360	4.0-6.15	885	\$ 955 (2038)	\$ 83,330
	1999A	60,000	4.35-5.75	-	1,970 (2032)	59,100
	2000A	87,695	4.15-6.45	145	3,150 (2032)	87,695
Subtotal		\$ 239,055		\$ 1,030		\$230,125
Single Family II	1983C	\$ 114,998	5.75-10.7	\$ -	\$ 815 (2010)	\$ 7,978
	1984A	75,002	7.0-11.5	-	5 (2010)	2
	1985A	40,000	5.5-9.75	1,252	4,330 (2016)	6,198
	1985B	74,997	5.7-9.75	-	265 (2011)	2,470
	1992RA	22,520	5.65-6.5	-	10 (2033)	22,520
	1994A	25,725	3.1-6.1	1,370	420 (2025)	12,070
	1994B	40,815	3.8-6.9	1,230	75 (2025)	8,820
	1994C	20,000	4.5-6.8	110	130 (2027)	4,265
	1995A	33,580	4.75-6.55	355	670 (2027)	19,565
	1995B	88,000	4.2-6.4	690	1,460 (2036)	85,220
	1996A	65,000	4.7-6.375	775	1,945 (2029)	53,475
	1998A	51,780	4.0-5.45	385	265 (2031)	49,815
	1998B	65,000	4.65-5.35	450	340 (2031)	64,335
Subtotal		\$ 717,417		\$ 6,617		\$336,733
Single Family III	1988B1-B2	\$ 25,000	6.2-8.9	\$ 105	\$ 85 (2020)	\$ 2,420
Single Family VII	1990C1-C2	25,000	6.45-8.95	100	300 (2022)	4,635
Single Family VIII	1991A1-A2	25,000	5.2-8.275	225	540 (2023)	7,165
Single Family IX	1991B1-B2	25,000	5.5-8.4	225	545 (2023)	7,710
Single Family X	1992A1-A2	25,000	4.45-7.85	305	685 (2024)	10,390
Multifamily	1978A	4,865	6.125	60	425 (2020)	2,600
	1992A	9,725	2.95-6.55	200	50 (2024)	8,600
	1996A	890	4.10-6.15	15	60 (2027)	845
	1998A	1,625	3.5-4.7	70	40 (2030)	1,565
	1999A	9,860	4.95-8.45	70	425 (2041)	9,860
Subtotal		\$ 26,965		\$ 415		\$ 23,470
Total		\$1,108,437		\$9,022		\$622,648
Add: Deferred amount on refunding						(20)
Add: Unamortized bond premiums						(52)
Total BOH Bonds Payable (net)						\$622,576

Debt service requirements (principal & interest) for all BOH programs are as follows (in thousands):

2001	2002	2003	2004	2005	2005+	Total
\$46,836	\$45,975	\$48,188	\$49,342	\$47,501	\$1,101,071	\$1,338,913

**G. No-Commitment Debt** - Information is presented below for financing authorities participating in debt issues. The State has no obligation for this debt. Accordingly, these bonds and notes are not reflected in the accompanying financial statements.

(1) **Montana Board of Investments (BOI)** - The BOI is authorized to issue industrial revenue bonds to finance projects for qualifying borrowers. Assets and revenues of the borrower are pledged to repay the bonds. The industrial revenue bonds issued by BOI do not constitute a debt, liability, obligation or pledge of faith and credit of the State of Montana. At June 30, 2000, outstanding industrial revenue bonds were as follows (in thousands):

Project	Date of Issue	Amount Issued	Amount Outstanding
Montana Cenex	August 1985	\$ 3,925	\$ 3,925
Colstrip	October 1989	60,800	60,800
Yellowstone Energy (BGI)	July 1993	118,345	118,045
Total		\$183,070	\$182,770

(2) **Beginning Farm Loan Program** - The Montana Department of Agriculture is authorized to request issuance of bonds by the Montana Board of Investments to finance projects for beginning farmers within the State, if it appears, after a properly noticed public hearing, that the project is in the public interest of the State. These non-recourse, industrial development revenue bonds do not constitute a debt, liability, or obligation of the State of Montana. The amount issued and outstanding at June 30, 2000, was as follows: Jorgensen Project - issued \$81,600; outstanding \$9,835.

(3) **Montana Health Facility Authority (MHFA) - Component Unit** - The MHFA is authorized to issue bonds and notes to finance projects for qualifying health institutions. The following obligations issued by MHFA do not constitute a debt, liability, obligation or pledge of faith and credit of the State of Montana. At June 30, 2000, the MHFA had issued bonds and notes as follows (in thousands):

Project	Date of Issue		Amount Issued	Amount Outstanding
West Mont Home Health Services	June	1985	\$ 440	\$ 50
MHFA 1985 Pooled Loan Projects	December	1985	66,900	35,900
Community Provider Pooled Loans	October	1988	1,461	397
Community Provider Pooled Loan	July	1990	5,858	3,909
Deaconess Medical Center (Series A)	February	1991	18,000	18,000
Deaconess Medical Center (Series B)	February	1991	18,000	18,000
Sisters of Providence	May	1991	45,020	5,575
Deaconess Medical Center	September	1991	\$ 32,650	\$ 26,250
Community Provider Pooled Loans	September	1991	3,944	2,885
Hospital Pooled Loans	August	1992	4,645	1,930
Richtland Opportunities	January	1993	200	155
Bozeman Deaconess Foundation	June	1993	14,900	9,310
Sisters of Charity	January	1994	50,915	39,705
Deaconess-Billings Clinic	January	1994	58,870	58,870
Residential Support Services	March	1994	50	34
St. Johns Retirement Home	October	1994	2,000	1,895
North Valley Hospital (Series D) (1)	October	1994	1,310	775
Northern MT (1)	October	1995	5,645	4,615
Northern MT	November	1995	6,090	5,500
Toole County Hospital	August	1996	1,635	1,390
Marcus Daily Memorial Hospital	August	1996	1,860	1,585
Glendive Community Hospital	August	1996	1,590	1,355
Mission Ridge	August	1996	17,835	17,835
Community Medical Center-Missoula	August	1996	20,730	19,495
Benefis	September	1996	16,880	11,670
St. Peters Hospital	January	1997	19,875	16,140
Regional Services (Beartooth Industries)	September	1997	260	246
Alternatives, Inc.	November	1997	2,925	2,745
Big Horn	February	1998	1,425	1,335
Lewis & Clark County (Cooney)	February	1998	1,730	1,615
North Valley	February	1998	1,890	1,595
Lewis & Clark County (Clinic)	February	1998	860	800
Sisters of Charity	March	1998	137,800	136,550
EMC MHC	May	1998	44	6
Opportunity Resources, Inc.	June	1998	400	377
Kalispell Regional Hospital	August	1998	19,630	18,615
Bozeman Deaconess	August	1998	13,500	12,630
Missoula Correctional (Prerelease)	October	1998	5,580	5,580
Great Falls Prerelease	October	1998	1,300	1,235
Community Medical 99 (Missoula)	January	1999	2,300	1,802
Providence Svc. (St. Pat & Joe)	July	1999	25,025	25,025
Sidney Health Center	August	1999	11,500	11,500
St. Patrick Hospital (GE PP)	December	1999	1,714	1,661
MLP OO - Marcus Daly	March	2000	3,444	3,444
Hillcrest Senior Living	March	2000	17,170	17,170
Missoula Correctional	October	1999	31	31
BSW, Inc. (99)	July	1999	71	58
Powell County Hospital	January	2000	86	81
Mineral Community Health Center	April	2000	24	24
Residential Support Services	January	2000	179	178
Opportunity Resources	May	2000	493	493
Total			\$666,484	\$548,021

(1) The Board of Investments (BOI) and the MHFA have entered into a capital reserve account agreement for certain bond issues. In accordance with the agreement, the BOI irrevocably committed to lend the MHFA funds sufficient to ensure timely payments of principal and interest on the bonds. If necessary, the loans will be made by the BOI from the Coal Severance Tax Permanent Trust Fund, a Trust Fund Bond Pool participant, or any other legally available funds administered by the BOI.

### 13. INTERFUND TRANSACTIONS

During the course of normal operations, the State has numerous transactions between funds to finance operations, provide services, construct assets, service debt, etc. Montana statutes include a provision for interfund loans when the expenditure of an appropriation is necessary and the cash balance in the account from which the appropriation was made is insufficient to pay the expenditure. To the extent that certain transactions between funds are not paid or received as of June 30, 2000, interfund receivables/payables (Due From/To Other Funds) are recorded. The schedule below presents all interfund balances outstanding at June 30, 2000, (in thousands) and interfund activity for the fiscal year then ended:

Within Primary Government and Component Units	Interfund Loans/Advances		From Other Funds	To Other Funds	Operating Transfers		Residual Equity Transfers	
	Receivable	Payable			In	Out	In	Out
<b>General</b>	\$ 70,418	\$ -	\$ 33,871	\$ 15,507	\$107,270	\$ 15,577	\$ 228	\$ -
<b>Special Revenue</b>								
State	25,853	8,325	15,162	15,934	44,100	27,022	7,071*	-
Federal	16	82,304	2,592	11,942	1,776	22,243	-	-
<b>Debt Service</b>								
Coal Tax Bonds	-	-	-	7	415	787	-	-
Long-Range Building Program	-	-	-	544	10,229	315	-	-
Water Development	-	-	-	-	2,432	70	-	-
Highway Revenue Bonds	-	-	-	-	13,536	-	-	-
Health Care Debt Service	-	-	-	-	1,581	85	-	-
Information Technology Bonds	-	-	100	-	5,793	-	-	-
SRS Bldg.	-	-	-	-	-	-	-	27
Energy Bonds	-	-	-	194	-	194	-	-
<b>Capital Projects</b>								
Long-Range Building Program	-	66	740	2,824	5,323	3,893	-	-
Federal/Private Construction Grts	-	-	-	-	2,825	-	-	-
Capital Land Grant	-	-	212	-	1,921	451	-	-
Information Technology Project	-	1,600	55	178	-	100	-	-
<b>Enterprise</b>								
Economic Development Bonds	-	-	-	14	-	-	-	-
Liquor Warehouse	76	-	372	8,672	-	19,548	-	-
Hail Insurance	-	-	-	42	-	26	-	-
State Lottery	-	-	2	1,578	-	5,841	-	-
Prison Ranch	147	-	47	63	-	18	-	-
Prison Industries	-	147	197	58	-	-	-	-
Uninsured Employers	-	-	-	-	-	-	-	6,774
Montana Career Info. Systems	-	-	-	1	-	-	-	-
Sec. of State Business Services	90	-	2	88	-	-	-	-
Historical Soc. Publications	-	9	-	18	54	-	-	-
Surplus Property	-	-	-	68	-	-	-	-
West Yellowstone Airport	-	-	-	4	14	-	-	-
Local Govt. Audits	-	-	-	12	-	-	-	-
Def. Comp. Administration	-	-	-	-	-	-	-	1
Flexible Spending Administration	-	150	147	-	-	-	-	-
<b>Internal Service</b>								
Highway Equipment	-	-	49	210	-	-	-	-
Employees Group Benefits	-	-	1,950	26	-	-	-	-
ISD	40	-	2,728	444	-	44	-	-
MUS Group Insurance	-	-	14	6	-	-	-	-
Administration Insurance	-	60	53	102	12	316	-	-
FWP Equipment	-	-	102	5	255	-	-	-
Motor Pool	-	616	423	72	-	-	-	-
Administration Supply	-	-	170	16	-	-	-	-
Publications & Graphics	-	-	395	44	-	-	-	-
Buildings & Grounds	-	-	82	82	44	411	-	-
Labor Central Services	97	-	744	323	-	-	-	-

Auditor's Report & Findings

Corrective Action Plan

Summary Schedule of Prior  
Audit Findings

Within Primary Government and Component Units	Interfund Loans/Advances		From Other Funds	To Other Funds	Operating Transfers		Residual Equity Transfers	
	Receivable	Payable			In	Out	In	Out
Commerce Central Services	-	-	147	106	-	-	-	-
DEQ Indirect Cost Pool	-	-	395	94	-	-	-	-
Mail & Messenger	-	-	190	17	-	-	-	-
Payroll Processing	-	-	-	20	-	-	-	-
Warrant Processing	-	15	52	28	-	-	-	-
Investment Division	-	-	26	95	-	-	-	-
Aircraft Operation	-	-	23	13	355	-	-	-
Justice Legal	-	140	136	53	-	-	-	-
OPI Central Services	-	-	215	112	-	-	-	-
Personnel Training	-	20	31	8	-	-	-	-
Records Management	-	90	19	23	-	-	-	-
FWP Office Supply	-	-	5	1	-	-	-	-
Debt Collection/CSC	-	1,342	28	318	-	346	-	-
Administration Legal	-	-	-	3	-	-	-	-
Local Govt. Administration	-	-	8	6	-	-	-	-
Administration DP Unit	-	-	1	4	-	-	-	-
<b>Expendable Trusts</b>								
Unemployment Insurance	-	20	9	-	-	-	-	-
Rural Development	-	-	-	4	-	-	-	-
Escheated Property	-	-	-	6	-	304	-	-
Historical Society General	9	-	-	1	-	-	-	-
Woodville Highway Replacement	-	26	-	-	-	-	-	-
Rural Physician	-	-	-	-	-	-	-	627
Wildlife Mitigation	-	-	-	24	15	47	-	-
Research & Commercialization	-	-	-	-	2,350	-	-	-
<b>Nonexpendable Trusts</b>								
Coal Tax Trust	-	79	-	8,129	-	44,631	-	-
Land Grants	-	-	299	7,718	14	50,911	-	-
Resource Indemnity	-	-	-	1,230	-	7,200	-	-
Parks Trust	-	-	-	90	-	961	-	-
Cultural Trust	-	-	-	46	-	254	-	-
Real Property	-	-	24	54	-	509	-	-
Noxious Weed Management	-	-	19	398	1,125	316	-	-
Thomas Teakle Trust	-	-	-	-	-	3	-	-
<b>Agency</b>								
Investment Pool	-	-	-	35	-	-	-	-
Land Grant Interest	-	-	-	8	-	-	-	-
Performance Deposits	430	-	28	903	-	-	-	-
Central Payroll	-	11	19,277	2,746	-	-	-	-
Custodial Accounts	-	-	6	45	-	-	-	-
Child Support Collections	-	-	53	-	-	-	-	-
Unclaimed Property	-	-	1	-	-	-	-	-
Intergovernmental	-	-	508	8	-	-	-	-
Uncleared Collections	-	-	35	73	-	-	-	-
Debt Collection/CSC	-	-	8	16	-	-	-	-
Stock Estray Fund	-	6	-	-	-	-	-	-
<b>Component Units</b>								
<b>Enterprise Funds</b>								
Housing Authority	-	-	-	27	-	-	-	-
Health Facilities Authority	-	-	-	6	-	-	-	-
State Comp. Insurance - New	-	-	488	405	-	-	-	-
State Comp. Insurance - Old	-	-	-	498	-	-	-	-
<b>Expendable Trust Fund</b>								
Employees Deferred Comp.	-	2,150	40	20	-	-	1	-
<b>Pension Trusts</b>								
Teachers Retirement	-	-	167	30	-	-	-	-
PERS	-	-	390	68	-	-	-	-
Municipal Police	-	-	39	37	-	-	-	-
Firefighters Unified	-	-	22	30	-	-	-	-
Sheriffs	-	-	-	29	-	-	-	-
Highway Patrol	-	-	7	15	-	-	-	-
Judges	-	-	-	3	-	-	-	-
Game Wardens	-	-	8	19	-	-	-	-

Within Primary Government and Component Units	Interfund Loans/Advances		From Other Funds	To Other Funds	Operating Transfers		Residual Equity Transfers	
	Receivable	Payable			In	Out	In	Out
Volunteer Firefighters	-	-	-	28	-	-	-	-
<b>Higher Education</b>								
<b>Current Funds</b>								
General Operating	7,530	1,805	1,350	13,030	1,180	1,725	-	-
Designated	14,676	63	3,111	2,152	4,587	3,542	129	-
Auxiliary	55	297	463	1,612	1,274	11,617	-	-
Restricted	2,200	15,196	1,092	6,517	553	111	-	-
<b>Fiduciary</b>								
Student Loans	-	-	121	7	-	5	-	-
Endowments	-	-	-	-	39	3	-	-
Agency	-	7,250	18,322	3,132	-	-	-	-
<b>Plant</b>								
Unexpended	2,081	2,225	556	1,192	2,535	7,452	349	-
Renewal & Replacement	64	41	1,749	335	7,152	2,157	-	349
Retirement of Indebtedness	139	-	1,568	538	23,323	13,027	-	-
Investment in Plant	-	69	-	-	-	-	-	-
<b>Totals</b>	<b>\$123,921</b>	<b>\$123,921</b>	<b>\$111,245</b>	<b>\$111,245</b>	<b>\$242,062</b>	<b>\$242,062</b>	<b>\$7,778</b>	<b>\$7,778</b>

\* 4,342 of the Residual Equity Transfer is reflected in Contributed Capital on the Balance Sheet

Between Primary Govt. and Component Units	Due From Comp. Units	Due To Primary Govt.	Due To Comp. Units	Due From Primary Govt.	Transfer From Comp. Units	Transfer To Primary Govt.	Transfer To Comp. Units	Transfer From Primary Govt.
<b>General</b>	\$ 774	\$ -	\$11,501	\$ -	\$ -	\$ -	\$110,608	\$ -
<b>Special Revenue</b>								
State	928	-	1,106	-	582	-	14,879	-
Federal	27	-	897	-	-	-	-	-
<b>Debt Service</b>								
Long-Range Building	-	-	-	-	11	-	-	-
<b>Capital Projects</b>								
Long Range Building	45	-	20	-	-	-	-	-
<b>Enterprise</b>								
Liquor Stores	1	-	-	-	-	-	-	-
State Lottery	-	-	9	-	-	-	-	-
Prison Industries	14	-	-	-	-	-	-	-
Flex Spending Admin.	64	-	-	-	-	-	-	-
<b>Internal Service</b>								
ISD	220	-	19	-	-	-	-	-
MUS Group Insurance	587	-	17	-	-	-	-	-
Motor Pool	1	-	-	-	-	-	-	-
Administration Supply	39	-	-	-	-	-	-	-
Publications & Graphics	9	-	-	-	-	-	-	-
Labor Central Services	11	-	-	-	-	-	-	-
Commerce Central Services	11	-	-	-	-	-	-	-
DEQ Indirect Cost Pool	8	-	-	-	-	-	-	-
Mail & Messenger	1	-	-	-	-	-	-	-
Warrant Processing	17	-	-	-	-	-	-	-
Investment Division	48	-	1	-	-	-	-	-
Justice Legal	3	-	-	-	-	-	-	-
OPI Central Services	5	-	-	-	-	-	-	-
Records Management	1	-	-	-	-	-	-	-
Debt Collection/CSC	3	-	-	-	-	-	-	-
<b>Nonexpendable Trusts</b>								
Coal Tax Trust	300	-	-	-	-	-	-	-
Land Grants	-	-	378	-	-	-	2,286	-
<b>Agency</b>								
Land Grant Interest	-	-	22	-	-	-	-	-
Central Payroll	5	-	559	-	-	-	-	-
Child Support Collections	9	-	-	-	-	-	-	-
Debt Collection/CSC	1	-	1	-	-	-	-	-

Between Primary Govt. and Component Units	Due From Comp. Units	Due To Primary Govt.	Due To Comp. Units	Due From Primary Govt.	Transfer From Comp. Units	Transfer To Primary Govt.	Transfer To Comp. Units	Transfer From Primary Govt.
<b>Component Units</b>								
<b>Enterprise Funds</b>								
Housing Authority	-	19	-	-	-	-	-	-
Health Facilities Authority	-	1	-	-	-	-	-	-
State Compensation Ins. - New	-	798	-	3	-	-	-	-
State Compensation Ins. - Old	-	2	-	11	-	-	-	-
Employees Deferred Comp.	-	-	-	502	-	-	-	-
<b>Pension Trusts</b>								
Teachers Retirement	-	25	-	133	-	-	-	-
PERS	-	43	-	27	-	-	-	-
Municipal Police	-	-	-	5,909	-	-	-	-
Firefighters Unified	-	-	-	5,278	-	-	-	-
Highway Patrol	-	-	-	214	-	-	-	-
<b>Higher Education</b>								
<b>Current Funds</b>								
General Operating	-	640	-	236	-	582	-	125,417
Designated	-	442	-	136	-	-	-	-
Auxiliary	-	14	-	-	-	-	-	261
Restricted	-	4	-	1,050	-	-	-	-
<b>Fiduciary</b>								
Agency	-	993	-	891	-	-	-	-
<b>Plant</b>								
Unexpended	-	49	-	140	-	-	-	995
Renewal and Replacement	-	102	-	-	-	-	-	70
Retirement of Debt	-	-	-	-	-	11	-	1,030
<b>Totals</b>	<b>\$3,132</b>	<b>\$3,132</b>	<b>\$14,530</b>	<b>\$14,530</b>	<b>\$593</b>	<b>\$593</b>	<b>\$127,773</b>	<b>\$127,773</b>

#### 14. FUND DEFICITS

The following funds have a deficit fund balance/retained earnings found on the operating statements for June 30, 2000, (in thousands):

##### Primary Government

###### Enterprise Fund

West Yellowstone Airport  
Department of Agriculture  
Subsequent Injury

##### Deficit

\$ (590)  
(176)  
(288)

###### Internal Service Fund

Bad Debt Division  
Records Management  
Payroll Processing  
Administration Insurance  
Justice Legal  
Personnel Training  
Administration - Legal  
Local Government Admin

(1,282)  
(49)  
(41)  
(23,769)  
(56)  
(11)  
(21)  
(39)

Total Fund Deficits - Primary Government

\$ (26,322)

##### Component Units

###### Proprietary Fund Type

State Comp. Ins. (Old Fund)

\$(135,908)

###### Higher Education Funds

General Operating Subfund

(23,918)

Total Fund Deficits - Component Units

\$(159,826)

The deficit-retained earnings in the Administration Insurance Fund, Subsequent Injury and the State Compensation Insurance-Old Fund are due to recording the expense for estimated claims including claims incurred but not reported. Refer to Note 9 for further discussion of these funds. The deficit fund balance in the General Operating Subfund is due to the expense associated with the recording of compensated absences.

## 15. RESERVED FUND BALANCES FOR TRUSTS

The Special Revenue fund balance reserved for trusts is for the Department of Environmental Quality federal Office of Surface Mining Trust Fund of \$6,551,852.

The Nonexpendable Coal Tax Trust Fund reserved for trust principal is comprised of the following: Permanent Coal Tax Trust \$566,748,147; Treasure State Endowment Fund \$67,362,284; and the School Bond Contingency Loan Fund \$2,177,964. All other nonexpendable funds reserved for trust principal total \$518,097,199.

## 16. SEGMENT INFORMATION

Selected financial information concerning all enterprise operations for the fiscal year ended June 30, 2000, is as follows (in thousands):

	Economic Development Bonds	Liquor Warehouse	Hail Insurance	State Lottery	Other* Enterprise	Total Enterprise
<b>Operating Revenues:</b>						
Charges for Services	\$ 7	\$ 42,532	\$ -	\$29,959	\$ 9,860	\$ 82,358
Investment Earnings	459	-	302	278	124	1,163
Financing Income	3,763	-	-	-	-	3,763
Contributions/Premiums	-	-	2,603	-	5,691	8,294
Grants/Contracts/Donations	-	-	-	16	-	16
Taxes	-	11,861	-	-	-	11,861
Other Revenues	-	95	86	8	139	328
<b>Operating Expenses:</b>						
Depreciation	1	65	-	594	223	883
Amortization	-	1	-	164	10	175
Other	3,509	33,466	2,943	23,633	15,679	79,230
Operating Income (Loss)	719	20,956	48	5,870	(98)	27,495
Nonoperating Revenues						
(Expenses)	-	-	-	(29)	(332)	(361)
Oper. Trans. In (Out)	-	(19,548)	(26)	(5,841)	50	(25,365)
Net Income (Loss)	\$ 719	\$ 1,408	\$ 22	\$ -	\$ (380)	\$ 1,769
<b>Current Assets</b>	\$ 12,885	\$ 15,947	\$ 5,023	\$ 3,672	\$ 11,331	\$ 48,858
<b>Current Liabilities</b>	(52,514)	(13,089)	(1,080)	(5,360)	(1,322)	(73,365)
<b>Net Working Capital</b>	<u>\$ (39,629)</u>	<u>\$ 2,858</u>	<u>\$ 3,943</u>	<u>\$ (1,688)</u>	<u>\$ 10,009</u>	<u>\$ 24,507</u>
<b>Total Assets</b>	\$ 70,759	\$ 16,847	\$ 9,520	\$ 9,893	\$ 17,038	\$ 124,057
<b>Total Liabilities</b>	66,261	13,232	3,048	9,655	4,229	96,425
<b>Fund Equity</b>	<u>\$ 4,498</u>	<u>\$ 3,615</u>	<u>\$ 6,472</u>	<u>\$ 238</u>	<u>\$ 12,809</u>	<u>\$ 27,632</u>
<b>Long-Term Obligations</b>	\$ 13,747	\$ 143	\$ 1,968	\$ 4,295	\$ 2,907	\$ 23,060
<b>Current Capital Contribution</b>	-	-	-	-	514	514
<b>Acquisition of Fixed Assets</b>	\$ 3	\$ 96	\$ -	\$ 23	\$ 91	\$ 213
<b>Disposal of Fixed Assets</b>	\$ -	\$ 113	\$ -	\$ 195	\$ 26	\$ 334

1. The Economic Development Bond Program, administered by the Board of Investments, assists Montana's small businesses and local governments in obtaining long-term, fixed-rate financing through private Montana lending institutions.
2. The Liquor Division of the Department of Revenue administers the State liquor operations (Liquor Warehouse). This fund accounts for liquor licensing activities and the sale and distribution of alcoholic beverages.
3. The Hail Insurance Fund provides benefit payments to producers for crop acreage insured and accounts for premium assessments paid (See Note 9).



4. The State Lottery accounts for the operations of Montana's lottery which began in June 1987. Included in Other Assets, as presented on the Balance Sheet, is \$2,102,185 which is not a current asset.

\* Other Enterprise is composed of the following funds (listed by administering agency):

**Department of Agriculture**  
Department of Agriculture

**Secretary of State**  
Business Services

**Department of Corrections**  
Prison Ranch Industries  
Womens Prison Industries  
Swan River Vocational Training

**Department of Commerce**  
Local Government Audits

**Montana Historical Society**  
Historical Society Publications

**Department of Administration**  
Surplus Property  
Flexible Spending  
Deferred Compensation Admin.

**Department of Transportation**  
West Yellowstone Airport

**Department of Labor and Industry**  
Montana Career Info. System  
Subsequent Injury  
Uninsured Employers

**Judiciary**  
Judiciary Law Library

**Commissioner of Higher Education**  
Flexible Spending

## 17. CONTRIBUTED CAPITAL

During fiscal year 2000, contributed capital changed by the following amounts (in thousands):

	<b><u>Primary Government</u></b> <b><u>Enterprise</u></b> <b><u>Fund</u></b>	<b><u>Internal Service</u></b> <b><u>Fund</u></b>	<b><u>Component Units</u></b> <b><u>Proprietary</u></b> <b><u>Fund Type</u></b>
Beginning Balance - July 1, 1999	\$4,413	\$7,335	\$154,468
Additions:			
Contributed Capital Transfers-in	651	4,930	-
Deletions:			
Contributed Capital Transfers-out	(137)	(21)	-
Ending Balance - June 30, 2000	\$4,927	\$12,244	\$154,468

## 18. RELATED PARTY TRANSACTIONS

The Montana Board of Regents, an agency within the State, is the guarantor of the loans owned by the Montana Higher Education Student Assistance Corporation (MHESAC), a private non-profit corporation. The Board of Regents and MHESAC have four common board members. Approximately 42.56% of the Regents' outstanding loan volume, or \$285,886,322 is held by MHESAC. During fiscal year 2000 MHESAC undertook a reorganization under which its operating staff and assets were transferred to the Student Assistance Foundation of Montana (SAF) and MHESAC entered into agreements with SAF to provide management and loan servicing to MHESAC. The Board of Regents and SAF have four common board members. Lewis & Clark County owns the building that houses the staff of the Board of Regents and the Office of the Commissioner of Higher Education (OCHE). Upon satisfaction of the financing obligations, SAF has the option to purchase the building. OCHE paid MHESAC & SAF during fiscal year 2000 for its share of various costs such as personnel costs for employees of MHESAC and SAF who performed services that were of direct benefit to the State; equipment leases, computer maintenance costs, utilities, and other shared operating expenses. The total amount of these expenses for fiscal year 2000 amounted to \$390,933. In the future OCHE will make such payments solely to SAF. Prior to the reorganization MHESAC employees were allowed to participate in the University System group insurance plan and MHESAC also paid OCHE reimbursement for certain services. MHESAC ceased participation in the group insurance plan and no longer receives services from OCHE. Presently SAF employees are allowed to participate in the University System group insurance plan and SAF also pays OCHE reimbursement for services such as telephones, postage, and computer services. During fiscal year 2000, MHESAC and SAF paid OCHE a total of \$503,132.

There is a foundation affiliated with each university and college unit which solicits contributions and manages those funds for the benefit of that unit. Although each foundation is a separate legal entity, each unit exercises significant influence over its affiliated foundation. The units generally provide the foundations with office space, some staff and related office expenses and an annually contracted fee. The units paid their foundations approximately \$681,293 in fiscal year 2000. In return the universities received from their foundations approximately \$12,606,634 during fiscal year 2000 for scholarships and academic/institutional support. In addition to support from their affiliated foundations, the University of Montana-Missoula, Montana State University-Billings and Montana State University-Bozeman



received a total of \$1,548,068 from their related athletic associations/booster organizations and affiliated museums and public broadcasting radio stations.

The Department of Administration, Personnel Division, has a staff member that serves as Director of the Montana Association of Health Care Purchasers for no remuneration. The Department pays this Association \$1,000 per year to maintain its membership. This staff member also serves as Director of Community Health Options which is a health purchasing cooperative whose purpose is to consolidate demand for health coverage to encourage more cost-effective health plans, negotiate more favorable rates and create economies of scale by combining administration of health care plans.

## 19. CONTINGENCIES

**A. Litigation** - The State is party to legal proceedings, which normally occur in government operations. The legal proceedings are not, in the opinion of the State's legal counsel and the Department of Administration, likely to have a material adverse impact on the State's financial position, except where listed below.

The State of Montana is involved in a lawsuit with the potential for substantial recovery of monetary relief against private parties. State of Montana v. Atlantic Richfield Co., No CV-83-317-H-PHG(D.Mont.), is a case where natural resource damage claims have been asserted under the Comprehensive Environmental Response, Compensation and Liability Act of 1980 with respect to environmental injury to Clark Fork River Basin. The State and Atlantic Richfield recently settled a portion of the case for \$215 million, but unresolved is a claim by the State for \$180 million. Atlantic Richfield has filed a counterclaim against the State, the amount of which is unspecified and therefore could reduce or exceed the States remaining claim. The State believes it has meritorious defenses to the counterclaim. Any recovery in this litigation must be used under federal law to further reclamation and recovery efforts or to offset attorney fees and assessment costs incurred by the State.

### B. Federal Contingencies:

**Federal Financial Assistance** - The State receives federal financial assistance for specified purposes which are subject to review and audit in accordance with the Single Audit Act Amendments of 1996. Any disallowances resulting from these audits would become the liability of the State. There are no disallowances reported as of June 30, 2000.

**USDA Commodities** - In fiscal year 2000, the State distributed \$5,397,031 in commodities. The value of the commodities stored in the State's warehouses was \$2,282,857 at June 30, 2000, for which the State is liable in the event of loss.

### C. Miscellaneous Contingencies:

**Commitment Fees** - The Board of Investments (BOI) and the Montana Health Facility Authority (MHFA) have entered into a capital reserve account agreement for certain bond issues. In accordance with the agreement, the BOI irrevocably committed to lend the MHFA funds sufficient to ensure timely payments of principal and interest on the bonds. If necessary, the loans will be made by the BOI from the Coal Severance Tax Permanent Trust Fund. The total amount of these bonds outstanding as of June 30, 2000 was \$34,936,798.

The BOI has issued INTERCAP bonds backed by commitments from the Coal Severance Tax Permanent Trust Fund. The total amount of these bonds outstanding as of June 30, 2000 was \$49,110,000.

**Gain Contingencies** - Certain natural resource and corporation tax assessments are not reported on the State's financial statements because they are being protested administratively. As of June 30, 2000, the following assessments (by fund type) were outstanding (in thousands):

Taxes	General	Special Revenue	Debt Service	Nonexpendable Trust
Corporation	\$ 7,224	\$ -	\$ -	\$ -
Coal Severance	-	-	-	-
Metal Mines	10	7	-	-
Oil & Gas	8,563	514	-	-
Resource Indemnity	-	463	-	393
Totals	\$15,797	\$ 984	\$ -	\$ 393

Collectibility of these contingencies is dependent upon the decisions of the court, other authorities, or agreed upon settlements. Interest related to Corporation Tax Assessments is distributed to the General Fund.

Loss Contingencies - Certain corporation(s) have requested refunds that are not reported on the State's financial statements as of June 30, 2000. As of June 30, 2000, \$6,268,810 of General Fund corporation tax refunds was outstanding.

## 20. SUBSEQUENT EVENTS

On June 29, 2000, Montana Health Facility Authority issued \$2,245,000 of Prerelease Center Revenue Bonds, Series 2000 for the Boyd Andrew Community Services Project. Proceeds were received on or about July 19, 2000.

On June 29, 2000, Board of Investments issued \$30,000,000 of Exempt Facility Revenue Bonds, Series 2000 for the Stillwater Mining Company Project. Proceeds were received on or about July 6, 2000.

On August 11, 2000, Montana Board of Housing issued \$71,940,000 of Single Family Mortgage Bonds, 2000 Series B. Proceeds were received on or about September 14, 2000.

On August 24, 2000, Montana Higher Education Student Assistance Corporation issued \$119,380,000 in student loan revenue bonds. Proceeds were received on or about September 7, 2000.

On August 31, 2000, Board of Investments issued \$15,000,000 of Municipal Finance Consolidation Act Bonds, Series 2000. Proceeds were received on or about September 13, 2000.

On Monday, February 26, 2001, a lawsuit was filed by Montanans for the Responsible Use of the School Trust (MonTRUST) against Barbara Ranf as State Treasurer of the State of Montana and the State Board of Land Commissioners. The lawsuit contends that depositing school trust revenues into the General Fund violates the Constitution and the Enabling Act of Montana because these revenues lose their character as a trust asset.

## LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor  
John W. Northey, Legal Counsel



Deputy Legislative Auditors:  
Jim Pellegrini, Performance Audit  
Tori Hunthausen, IS Audit & Operations  
James Gillett, Financial-Compliance Audit

### INDEPENDENT AUDITOR'S REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

To the Legislative Audit Committee  
of the Montana State Legislature:

We have audited the general purpose financial statements of the state of Montana for the fiscal year ended June 30, 2000, and have issued our report thereon dated March 19, 2001. Our audit was performed for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the general purpose financial statements. Such information has been subjected to the audit procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general purpose financial statements taken as a whole.

This report is intended for the information of the Legislative Audit Committee, state of Montana management, the Montana State Legislature, federal awarding agencies, and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "James Gillett".

James Gillett, CPA  
Deputy Legislative Auditor

March 19, 2001



State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2000

AMOUNT

**PEACE CORPS**

08.999	Miscellaneous Non-Major Grants	11,202
	<b>TOTAL</b>	<b>\$11,202</b>

**DEPARTMENT OF AGRICULTURE**

10.025	Plant and Animal Disease, Pest Control, and Animal Care	409,216
10.072	Wetlands Reserve Program	377
10.156	Federal-State Marketing Improvement Program	13,999
10.162	Inspection Grading and Standardization	20,668
10.203	Payments to Agricultural Experiment Stations Under the Hatch Act	1,986,059
10.212	Small Business Innovation Research: From Environmental and Petrol	947
10.475	Cooperative Agreements with States for Intrastate Meat and Poultry Inspection	395,439
10.500	Cooperative Extension Service	3,380,497
10.500	Cooperative Extension Service: From Fort Belknap College	1,270
10.500	Cooperative Extension Service: From Little Big Horn College	1,693
10.500	Cooperative Extension Service: From Salish Kootenai College	280
10.550	Food Distribution	2,085,834
10.557	Special Supplemental Nutrition Program for Women, Infants, & Children	12,152,969
10.558	Child and Adult Care Food Program	8,958,650
10.560	State Administrative Expenses for Child Nutrition	609,354
10.564	Nutrition Education and Training Program	156
10.565	Commodity Supplemental Food Program	19,543
10.567	Food Distribution Program on Indian Reservations	4,171,733
10.570	Nutrition Program for the Elderly (Commodities)	1,032,022
10.574	Team Nutrition Grants	133,193
10.601	Market Access Program: From USA Tr. As. & Liv. Gen	45,243
10.664	Cooperative Forestry Assistance	956,959
10.769	Rural Development Grants	14,713
10.771	Rural Cooperative Development Grants	3,289

Auditor's Report & Findings

Corrective Action Plan

Summary Schedule of Prior  
Audit Findings

State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2000

		AMOUNT
10.901	Resource Conservation and Development	62,474
10.906	Watershed Surveys and Planning	4,741
10.963	Scientific and Technical Cooperation	698
10.999	Miscellaneous Non-Major Grants	117,072
	<b>TOTAL</b>	<b>\$36,579,088</b>
<b>CHILD NUTRITION CLUSTER</b>		
10.553	School Breakfast Program	2,885,177
10.555	National School Lunch Program	14,511,212
10.556	Special Milk Program for Children	38,723
10.559	Summer Food Service Program for Children	530,212
	<b>TOTAL</b>	<b>\$17,965,324</b>
<b>EMERGENCY FOOD ASSISTANCE CLUSTER</b>		
10.568	Emergency Food Assistance Program (Administrative Costs)	191,034
10.569	Emergency Food Assistance Program (Food Commodities)	709,704
	<b>TOTAL</b>	<b>\$900,738</b>
<b>FOOD STAMP CLUSTER</b>		
10.551	Food Stamps	52,255,717
10.561	State Administrative Matching Grants for Food Stamp Program	6,193,634
	<b>TOTAL</b>	<b>\$58,449,351</b>
<b>SCHOOLS AND ROADS CLUSTER</b>		
10.665	Schools and Roads: Grants to States	6,432,548
	<b>TOTAL</b>	<b>\$6,432,548</b>
<b>DEPARTMENT OF COMMERCE</b>		
11.303	Economic Development-Technical Assistance	32,980
11.307	Special Economic Development and Adjustment Assistance Program	862,283
11.550	Public Telecommunication Facilities-Planning and Construction	361,706
11.552	Telecommunications and Information Infrastructure Assistance Program	2,589
11.609	Measurement and Engineering Research and Standards	2,248,095
11.611	Manufacturing Extension Partnership	589,955

State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2000

AMOUNT

11.612	Advanced Technology Program	22,559
	<b>TOTAL</b>	<b>\$4,120,167</b>

**DEPARTMENT OF DEFENSE**

12.106	Flood Control Projects	22,134
12.110	Planning Assistance to States	188,611
12.400	Military Construction National Guard	4,360,674
12.401	National Guard Military Operations and Maintenance Projects	5,916,733
12.404	National Guard Civilian Youth Opportunities Programs	1,848,489
12.900	Language Grant Program	163,419
	<b>TOTAL</b>	<b>\$12,500,060</b>

**DEPARTMENT OF HOUSING & URBAN DEVELOPMENT**

14.228	Community Development Block Grant/States Program	7,763,554
14.231	Emergency Shelter Grants Program	463,518
14.239	Home Investment Partnerships Program	4,259,759
14.401	Fair Housing Assistance Program-State and Local	22,938
14.999	Miscellaneous Non-Major Grants	170,273
	<b>TOTAL</b>	<b>\$12,680,042</b>

**SECTION 8 PROJECT-BASED CLUSTER**

14.195	Section 8 Project-Based Cluster	55,157
14.856	Lower Income Housing Assistance Program-Section 8 Moderate Rehabilitation	2,474,242
	<b>TOTAL</b>	<b>\$2,529,399</b>

**SECTION 8 TENANT-BASED CLUSTER**

14.855	Section 8 Rental Voucher Program	7,517,231
14.857	Section 8 Rental Certificate Program	3,889,208
	<b>TOTAL</b>	<b>\$11,406,439</b>

**DEPARTMENT OF THE INTERIOR**

15.114	Indian Education: Higher Education Grant Program	43,119
15.130	Indian Education: Assistance to Schools	42,901

Auditor's Report & Findings

Corrective Action Plan

Summary Schedule of Prior Audit Findings

State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2000

		AMOUNT
15.199	Tongue River Rehabilitation Grant	723,783
15.199	Tongue River Rehabilitation Grant: From MT/WY Court Judges	2,947
15.200	Bureau of Land Management-Cooperative Assistance Agreement	2,700
15.219	Wildlife Habitat Management Technical Assistance	53,742
15.224	Cultural Resource Management	18,300
15.225	Recreation Resource Management	74,112
15.250	Regulation Surface Coal Mining and Surface Effects of Underground Coal Mining	881,070
15.252	Abandoned Mine Land Reclamation (AMLR) Program	3,114,971
15.299	Miscellaneous Non-Major Grants	224,689
15.502	Irrigation System Rehabilitation and Betterment	129,326
15.504	Reclamation and Water Reuse Program	166,578
15.608	Fish and Wildlife Management Assistance	32,247
15.612	Endangered Species Section 6	49,887
15.617	Wildlife Conservation and Appreciation	572
15.805	Assistance to State Water Resources Research Institutes	130,538
15.806	Water Education Program	79,638
15.808	U.S. Geological Survey-Research and Data Acquisition	8,341
15.809	National Spatial Data Infrastructure Competitive Cooperative Agreements Program	3,775
15.904	Historic Preservation Fund Grants-in-Aid	637,096
15.912	National Historic Landmark	14,615
15.915	Technical Preservation Services	11,448
15.916	Outdoor Recreation: Acquisition, Development and Planning	23,057
15.999	Miscellaneous Non-Major Grants	297,244
	<b>TOTAL</b>	<b>\$6,766,696</b>
<b>FISH AND WILDLIFE CLUSTER</b>		
15.605	Sport Fish Restoration	7,790,314
15.611	Wildlife Restoration	5,913,944
	<b>TOTAL</b>	<b>\$13,704,258</b>



State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2000

AMOUNT

Auditor's Report & Findings

Corrective Action Plan

Summary Schedule of Prior  
Audit Findings

**DEPARTMENT OF JUSTICE**

16.001	Law Enforcement Assistance: Narcotics and Dangerous Drugs-Laboratory Analysis	68,296
16.523	Juvenile Accountability Incentive Block Grants	1,403,023
16.523	Juvenile Accountability Incentive Block Grants: From Flathead County	46,773
16.540	Juvenile Justice and Delinquency Prevention: Allocation to States	787,714
16.547	Victims of Child Abuse	49,203
16.548	Title V Delinquency Prevention	144,741
16.549	Part E State Challenge Activities	87,500
16.550	State Justice Statistics Program For Statistical Analysis Centers	64,019
16.575	Crime Victim Assistance	1,212,744
16.576	Crime Victim Compensation	195,417
16.579	Byrne Formula Grant Program	2,697,187
16.580	Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Prog	3,094
16.586	Violent Offender Incarceration and Truth in Sentencing Incentive Grants	120,348
16.588	Violence Against Women Formula Grants	850,101
16.592	Local Law Enforcement Block Grants Program	201,621
16.593	Residential Substance Abuse Treatment for State Prisoners	(333,294)
16.598	State Identification Systems Formula Grant	163,155
16.606	State Criminal Alien Assistance Program	47,007
16.710	Public Safety Partnership and Community Policing Grants	43,799
16.711	Troops to COPS	38,427
16.727	Combating Underage Drinking	511,757
16.729	Drug-Free Communities Support Program Grants: From HELP	611
16.999	Miscellaneous Non-Major Grants	10,557
<b>TOTAL</b>		<b>\$8,413,800</b>

**DEPARTMENT OF LABOR**

17.002	Labor Force Statistics	651,812
17.005	Compensation and Working Conditions Data	406,131

State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2000

		AMOUNT
17.203	Labor Certification for Alien Workers	115,126
17.225	Unemployment Insurance	67,419,729
17.245	Trade Adjustment Assistance-Workers	1,833,206
17.248	Employment and Training Research and Development Projects	1
17.249	Employment Services and Job Training: Pilot and Demonstration Programs	3,175,788
17.249	Employment Services and Job Training: Pilot and Demonstration Programs: From MT Job Training Partners	97,575
17.251	Native American Employment and Training Programs	146,173
17.253	Welfare-to-Work Grants to States and Localities	3,205,253
17.257	One-Stop Career Center Initiative	2,099,471
17.600	Mine Health and Safety Grants	77,332
	<b>TOTAL</b>	<b>\$79,227,597</b>
<b>EMPLOYMENT SERVICES CLUSTER</b>		
17.207	Employment Service	5,678,498
17.801	Disabled Veterans Outreach Program (DVOP)	240,000
17.804	Local Veterans' Employment Representative Program	576,000
	<b>TOTAL</b>	<b>\$6,494,498</b>
<b>JTPA CLUSTER</b>		
17.246	Employment and Training Assistance-Dislocated Workers	4,740,018
17.250	Job Training Partnership Act	6,084,752
	<b>TOTAL</b>	<b>\$10,824,770</b>
<b>DEPARTMENT OF STATE</b>		
19.401	Educational Exchange - Fulbright/Hayes	112,364
19.408	Educational Exchange - Teachers from Secondary and Postsecondary Levels	149,410
	<b>TOTAL</b>	<b>\$261,774</b>
<b>DEPARTMENT OF TRANSPORTATION</b>		
20.005	Boating Safety Financial Assistance	309,737
20.005	Boating Safety Financial Assistance: From Carbon County	2,783
20.005	Boating Safety Financial Assistance: From Flathead County	4,980

State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2000

AMOUNT

20.106	Airport Improvement Program	65,000
20.215	Highway Training and Education	1,871
20.218	Motor Carrier Safety Assistance Program	724,124
20.219	National Recreational Trails Funding Program	693,660
20.505	Federal Transit Technical Studies Grant	303,276
20.513	Capital Assistance Program for Elderly Persons and Persons with Disabilities	355,104
20.700	Pipeline Safety	15,503
20.701	University Transportation Centers Program	99,921
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	72,780

**TOTAL** \$2,648,739

**FEDERAL TRANSIT CLUSTER**

20.507	Federal Transit Capital and Operating Assistance Formula Grants	1,310,920
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**TOTAL** \$1,310,920

**HIGHWAY PLAN. & CONST.CLUSTER**

20.205	Highway Planning and Construction	239,418,147
20.205	Highway Planning and Construction: From Travel Division	73,471

**TOTAL** \$239,491,618

**HIGHWAY SAFETY CLUSTER**

20.600	State and Community Highway Safety	617,909
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**TOTAL** \$617,909

**DEPARTMENT OF TREASURY**

21.999	Miscellaneous Non-Major Grants	614,402
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**TOTAL** \$614,402

**EQUAL EMPLOYMENT OPPORTUNITY COMMISSION**

30.002	Employment Discrimination-State and Local Fair Employment Practices	129,331
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**TOTAL** \$129,331

**GENERAL SERVICES ADMINISTRATION**

39.003	Donation of Federal Surplus Personal Property	732,466
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Auditor's Report & Findings

Corrective Action Plan

Summary Schedule of Prior Audit Findings

State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2000

		AMOUNT
		TOTAL
		\$732,466
<b>NATIONAL AERONAUTICS AND SPACE ADMINISTRATION</b>		
43.000	NASA	19,157
43.000	NASA: From U of Wyoming	(9,583)
43.001	Aerospace Education Services Program	152,679
43.001	Aerospace Education Services Program: From Jet Propulsion Lab	9,795
43.001	Aerospace Education Services Program: From Space Telescope Science	29,920
43.001	Aerospace Education Services Program: From Thermal Biology Inst	3,286
43.001	Aerospace Education Services Program: From University of Wyoming	14,185
43.002	Technology Transfer	8,162
43.002	Technology Transfer: From LB Johnson Space Center	536,231
43.999	Miscellaneous Non-Major Grants	10,000
43.999	Miscellaneous Non-Major Grants: From Lockheed Martin Corp	33,897
		<b>TOTAL</b>
		<b>\$807,729</b>
<b>NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES</b>		
45.003	Promotion of the Arts in Education	8,596
45.024	Promotion of the Arts-Grants to Organizations and Individuals	15,756
45.025	Promotion of the Arts-Partnership Agreements	410,233
45.129	Promotion of the Humanities-Federal/State Partnership	13,040
45.129	Promotion of the Humanities-Federal/State Partnership: From MT Comm Humanities	27,524
45.160	Promotion of the Humanities - Fellowships and Stipends	29,871
45.162	Promotion of the Humanities - Education Development and Demonstration	66,722
45.164	Promotion of the Humanities - Public Programs	3,953
45.301	Institute of Museum and Library Services - General Operating Support	652,855
		<b>TOTAL</b>
		<b>\$1,228,550</b>
<b>NATIONAL SCIENCE FOUNDATION</b>		
47.041	Engineering Grants	178,039

State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2000

AMOUNT

47.049	Mathematical and Physical Sciences	337,371
47.049	Mathematical and Physical Sciences: From City University of NY	55,552
47.049	Mathematical and Physical Sciences: From Natl Council Teachers	81,657
47.050	Geosciences	2,590
47.070	Computer and Information Science and Engineering	107,156
47.074	Biological Sciences	391,938
47.076	Education and Human Resources	1,052,678
47.076	Education and Human Resources: From Nutritional Lab Internat	2,998
<b>TOTAL</b>		<b>\$2,209,979</b>

**SMALL BUSINESS ADMINISTRATION**

59.000	Small Business Administration-Technical Assistance Grant	237,240
59.037	Small Business Development Center	561,271
59.037	Small Business Development Center: From As. of SBDC	21,200
<b>TOTAL</b>		<b>\$819,711</b>

**U.S. SMALL BUSINESS ASSOCIATION**

99.999	Small Business Development Center	57,954
99.999	Small Business Development Center: From U of North Dakota	56,806
<b>TOTAL</b>		<b>\$114,760</b>

**DEPARTMENT OF VETERANS AFFAIRS**

64.011	Veterans Dental Care	18,736
64.014	Veterans State Domiciliary Care	164,474
64.015	Veterans State Nursing Home Care	2,241,805
64.124	All-Volunteer Force Educational Assistance	53,083
64.199	Miscellaneous Non-Major Grants	417
64.203	State Cemetery Grants	369,554
<b>TOTAL</b>		<b>\$2,848,069</b>

Auditor's Report & Findings

Corrective Action Plan

Summary Schedule of Prior Audit Findings

State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2000

AMOUNT

**ENVIRONMENTAL PROTECTION AGENCY**

66.418	Construction Assistance for Wastewater Treatment	39,507
66.420	State and Local Manpower Development Program	38,662
66.433	State Underground Water Source Protection	118,714
66.438	Construction Management Assistance	204,612
66.454	Water Quality Management Planning	112,338
66.456	National Estuary Program	451,549
66.458	Capitalization Grants For State Revolving Funds	6,625,207
66.460	Nonpoint Source Implementation Grants	3,293,247
66.461	Wetlands Protection - State Development Grants	418,480
66.461	Wetlands Protection - State Development Grants: From Gallatin Conservation	3,032
66.463	National Pollutant Discharge Elimination System Related State Program Grants	13,569
66.468	Capitalization Grants for Drinking Water State Revolving Fund	8,631,827
66.605	Performance Partnership Grants	3,893,745
66.606	Surveys, Studies, Investigations and Special Purpose Grants	93,376
66.607	Training and Fellowships for the Environmental Protection Agency	6,850
66.700	Consolidated Pesticide Enforcement Cooperative Agreements	461,329
66.708	Pollution Prevention Grants Program	252,849
66.708	Pollution Prevention Grants Program: From Peaks to Prairies Inform	5,702
66.802	Superfund State Site - Specific Cooperative Agreements	1,134,629
66.804	State Underground Storage Tanks Program	20,838
66.805	Leaking Underground Storage Tank Trust Fund Program	849,454
66.806	Superfund Technical Assistance Grants for Citizen Groups at Priority Sites: From Arrowhead Foundation	3,000
66.808	Solid Waste Management Assistance	18,566
66.950	Environmental Education and Training Program: From N Am Asso Envir Educ	20,777
66.950	Environmental Education and Training Program: From North American Assoc.	70,282
66.951	Environmental Education Grants	78,160
<b>TOTAL</b>		<b>\$26,860,301</b>

State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2000

AMOUNT

**DEPARTMENT OF ENERGY**

81.041	State Energy Program	320,390
81.042	Weatherization Assistance for Low-Income Persons	2,625,278
81.086	Conservation Research and Development	1,721,781
81.104	Technology Development for Environmental Management	83,557
81.999	Miscellaneous Non-Major Grants	205,001
81.999	Miscellaneous Non-Major Grants: From University of Wisconsin	19,530
<b>TOTAL</b>		<b>\$4,975,537</b>

**FEDERAL EMERGENCY MANAGEMENT AGENCY**

83.007	Reimbursement for Firefighting on Federal Property	222,507
83.009	National Fire Academy Training Assistance	70,359
83.011	Hazardous Materials Training Program for Implementation of the Superfund	20,489
83.012	Hazardous Materials Assistance Program	5,323
83.105	Community Assistance Program - State Support Services Element	131,324
83.505	State Disaster Preparedness Grants	16,396
83.516	Public Assistance	677,709
83.534	Emergency Management State and Local Assistance	213,231
83.535	Mitigation Assistance	25,776
83.548	Hazard Mitigation Grant	323,847
83.551	Project Impact Building Disaster Resistant Communities	37,666
83.552	Emergency Management Performance Grants	783,071
83.999	Miscellaneous Non-Major Grants	53,741
<b>TOTAL</b>		<b>\$2,581,439</b>

**DEPARTMENT OF EDUCATION**

84.002	Adult Education - State Grant Program	1,170,002
84.002	Adult Education - State Grant Program: From WORD	5,540
84.010	Title I Grants To Local Education Agencies	26,735,293
84.011	Migrant Education - Basic State Grant Program	777,668

Auditor's Report & Findings

Corrective Action Plan

Summary Schedule of Prior Audit Findings

State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2000

	AMOUNT
84.013 Title I Program for Neglected and Delinquent Children	66,342
84.016 Undergraduate International Studies and Foreign Language	59,714
84.023 Innovation and Development: From Pottlatch School Dist	40,556
84.024 Early Education for Children with Disabilities	245,363
84.026 Media and Captioned Services for Individuals with Disabilities	3,349
84.029 Special Education - Personnel Development and Parent Training	183,118
84.048 Vocational Education - Basic Grants to States	5,933,970
84.048 Vocational Education - Basic Grants to States: From MT Comm Humanities	157,034
84.069 State Student Incentives Grants	105,035
84.083 Women's Educational Equity Act Program	57,542
84.086 Special Education-Program for Severely Disabled Children	170,968
84.086 Special Education-Program for Severely Disabled Children: From Allegheny Univ	767
84.094 Patricia Roberts Harris Fellowship	5,050
84.116 Fund for the Improvement of Postsecondary Education	24,110
84.126 Rehabilitation Services-Vocational Rehabilitation Grants to States	9,230,322
84.128 Rehabilitation Services-Service Projects	169,871
84.128 Rehabilitation Services-Service Projects: From Virginia Commonwealth	41,751
84.129 Rehabilitation Long-Term Training	59,870
84.144 Migrant Education - Coordination Program(B): From Illinois Migrant Council	11,551
84.154 Public Library Construction and Technology Enhancement	10,000
84.158 Secondary Education and Transitional Services for Youth With Disabilities	385,602
84.162 Immigrant Education	30,293
84.169 Independent Living-State Grants	283,425
84.170 Javits Fellowships	24,672
84.177 Rehabilitation Services-Independent Living Services for Older Individuals/Blind	207,718
84.181 Special Education-Grants for Infants and Families with Disabilities	1,811,831
84.185 Byrd Honors Scholarships	141,773
84.186 Safe and Drug-Free Schools and Communities - State Grants	2,100,911
84.187 Supported Employment Services for Individuals with Severe Disabilities	298,681
84.194 Bilingual Education Support Services	109,517



**State of Montana**  
**Schedule of Expenditures of Federal Awards**  
**For the Fiscal Year Ending June 30, 2000**

		AMOUNT
84.195	Bilingual Education - Professional Development	585,531
84.196	Education for Homeless Children and Youth	105,700
84.203	Star Schools: From Ed Service District 101	23,680
84.213	Even Start - State Educational Agencies	639,993
84.214	Even Start - Migrant Education	172,609
84.215	Fund for Improvement of Education	212,978
84.215	Fund for Improvement of Education: From Csl. of State Sch. Off	28,024
84.216	Capital Expenses	4,751
84.224	State Grants for Assistive Technology	501,621
84.234	Projects with Industry	216,197
84.235	Special Projects and Demonstrations for Providing Vocational Rehabilitation	211,293
84.243	Tech-Prep Education	358,271
84.256	Freely Associated States - Education Grant Program: From U of California	31,413
84.265	Rehabilitation Training-State Vocational Rehabilitation Unit In-Service	24,435
84.281	Eisenhower Professional Development State Grants	1,483,534
84.298	Innovative Education Program Strategies	1,875,761
84.303	Technology Innovation Challenge Grants	6,571
84.303	Technology Innovation Challenge Grants: From Polson Public Schools	607,175
84.314	Even Start - Statewide Family Literacy Program	120,117
84.318	Technology Literacy Challenge Fund Grants	2,907,986
84.325	Special Education-Personnel Preparation to Improve Services and Results for Children	134,870
84.325	Special Education-Personnel Preparation to Improve Services and Results for Children: From U of Colorado at Denver	16,129
84.326	Special Education-Technical Assistance and Dissemination to Improve Services and Results	154,510
84.330	Advanced Placement Incentive Program	4,785
84.332	Comprehensive School Reform Demonstration	435,300
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs (GEAR-UP)	505,367
84.335	Child Care Access Means Parents in School	11,011
84.340	Class Size Reduction	5,286,445

**Auditor's Report & Findings**

**Corrective Action Plan**

**Summary Schedule of Prior Audit Findings**

State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2000

		AMOUNT
84.342	Preparing Tomorrow's Teachers to Use Technology	206,067
84.998	American Printing House for the Blind	4,409
84.999	Miscellaneous Non-Major Grants	59,232
84.999	Miscellaneous Non-Major Grants: From Columbia Education Ctr	72,799
84.999	Miscellaneous Non-Major Grants: From ORISE	34,879
	<b>TOTAL</b>	<b>\$67,702,652</b>
<b>SPECIAL EDUCATION CLUSTER</b>		
84.027	Special Education - Grants to States	12,673,516
84.173	Special Education - Preschool Grants	1,220,408
	<b>TOTAL</b>	<b>\$13,893,924</b>
<b>STUDENT FINANCIAL ASSISTANCE CLUSTER</b>		
84.007	Federal Supplemental Educational Opportunity Grants	1,427,653
84.032	Federal Family Education Loans	1,403,929
84.033	Federal Work - Study Program	2,692,535
84.038	Federal Capital Contributions	416,376
84.063	Federal Pell Grant Program	21,365,780
84.268	Federal Direct Student Loans	29,020,625
	<b>TOTAL</b>	<b>\$56,326,898</b>
<b>TRIO CLUSTER</b>		
84.042	TRIO-Student Support Services	978,571
84.044	TRIO-Talent Search	426,214
84.047	TRIO-Upward Bound	1,349,261
84.066	TRIO-Educational Opportunity Centers	401,754
84.217	McNair Post - Baccalaureate Achievement	202,064
	<b>TOTAL</b>	<b>\$3,357,864</b>
<b>NATIONAL ARCHIVES AND RECORDS ADMINISTRATION</b>		
89.003	National Historical Publications and Records Grants	5,090
	<b>TOTAL</b>	<b>\$5,090</b>

State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2000

AMOUNT

**DEPARTMENT OF HEALTH AND HUMAN SERVICES**

93.041	Special Programs for the Aging-Title VII, Chapter 3-Programs for Prevention	10,067
93.042	Special Programs for the Aging-Title VII, Chapter 2-Long Term Care Ombudsman Services	34,146
93.043	Special Programs for the Aging-Title III, Part F-Disease Prevention/Health Promotion Serv	78,806
93.046	Special Programs for the Aging-Title III, Part D for In-Home Services	12,914
93.048	Special Programs for Aging-Title IV-Training, Research & Discretionary Projects & Programs	9,254
93.110	Maternal and Child Health Federal Consolidated Programs	136,017
93.116	Project Grant and Cooperative for Tuberculosis Control Program	141,602
93.127	Emergency Medical Services for Children	131,644
93.130	Primary Care Services-Resource Coordination and Development Primary Care Offices	207,115
93.150	Projects for Assistance in Transition from Homelessness (PATH)	296,618
93.178	Nursing Workforce Diversity	162,567
93.184	Disabilities Prevention	69,731
93.197	Childhood Lead Poisoning Prevention Projects-State and Community	171,758
93.217	Family Planning Services	1,142,946
93.223	Development and Coordination of Rural Health Services	67,699
93.228	Indian Health Service - Health Management Development Program: From Indian Health Service	21,865
93.230	Consolidated Knowledge Development and Application Program	1,469,388
93.235	Abstinence Education	269,294
93.238	Cooperative Agreements/ State Treatment Outcomes and Performance Pilot Studies Enhancement	61,216
93.241	State Rural Hospital Flexibility Program	631,777
93.268	Childhood Immunization Grant	2,866,106
93.283	Centers for Disease Control and Prevention-Investigations and Technical Assistance	1,165,560
93.289	President's Council on Physical Fitness and Sports: From NCAA	71,451
93.298	Nurse Practitioner and Nurse-Midwifery Education Programs	103,314
93.358	Professional Nurse Traineeships	33,016

Auditor's Report & Findings

Corrective Action Plan

Summary Schedule of Prior Audit Findings

State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2000

		AMOUNT
93.556	Family Preservation and Support Services	593,959
93.558	Temporary Assistance for Needy Families (TANF)	29,587,514
93.563	Child Support Enforcement	7,974,140
93.566	Refugee and Entrant Assistance-State Administered Programs	134,331
93.568	Low Income Home Energy Assistance	6,965,627
93.569	Community Services Block Grant	2,575,898
93.571	Community Services Block Grant Discretionary Awards-Community Food and Nutrition	12,379
93.576	Refugee and Entrant Assistance-Discretionary Grants	40,757
93.586	State Court Improvement Program	99,188
93.590	Community-Based Family Resource and Support Grants	176,894
93.597	Grants to States for Access and Visitation Programs	47,360
93.600	Head Start	123,132
93.603	Adoption Incentive Payments	11,938
93.612	Native American Programs	4,869
93.630	Developmental Disabilities Basic Support and Advocacy Grants	407,580
93.632	Developmental Disabilities University Affiliated Programs	303,552
93.643	Children's Justice Grants to States	45,498
93.645	Child Welfare Service-State Grant	724,654
93.656	Temporary Child Care and Crisis Nurseries	60,167
93.658	Foster Care Title IV-E	11,015,053
93.659	Adoption Assistance	1,648,907
93.667	Social Services Block Grant	9,378,243
93.669	Child Abuse and Neglect State Grants	91,719
93.671	Family Violence Prevention and Services/Grants for Battered Women's Shelters	442,418
93.673	Grants to States for Planning and Development of Dependent Care Program	5,920
93.674	Independent Living	232,557
93.767	State Children's Insurance Program	3,275,606
93.822	Health Careers Opportunities Program	162,912
93.912	Rural Outreach-Rural Network Developmental Program	214,640

State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2000

	AMOUNT
93.913 Grants to States for Operation of Offices of Rural Health	14
93.917 HIV Care Formula Grants	451,231
93.919 Cooperative Agreements for State-Based Breast and Cervical Cancer Early Detection	1,023,927
93.926 Healthy Start Initiative	137,305
93.938 Cooperative Agreements to Support School Health Programs	259,345
93.940 HIV Prevention Activities-Health Department Based	1,054,399
93.944 HIV/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	68,226
93.945 Assistance Program for Chronic Disease Prevention	86,549
93.951 Demonstration Grants to States with Respect to Alzheimer's Disease	186,412
93.958 Block Grants for Community Mental Health Services	991,572
93.959 Block Grants for Prevention and Treatment of Substance Abuse	5,160,145
93.970 Health Professions Recruitment Program for Indians	153,762
93.970 Health Professions Recruitment Program for Indians: From Indian Health Service	24,895
93.977 Preventive Health Services-Sexually Transmitted Diseases Control Grants	265,255
93.988 Cooperative Agreements for State-Based Diabetes Control Programs and Evaluations	360,937
93.991 Preventive Health and Health Services Block Grant	1,131,036
93.994 Maternal and Child Health Services Block Grant to the States	2,655,553
93.999 Miscellaneous Non-Major Grants	244,394
<b>TOTAL</b>	<b>\$99,978,240</b>
<b>AGING CLUSTER</b>	
93.044 Special Programs for the Aging-Title III, Part B-Supportive Services and Senior Centers	1,630,091
93.045 Special Programs for the Aging-Title III, Part C-Nutrition Services	2,408,261
<b>TOTAL</b>	<b>\$4,038,352</b>
<b>CHILD CARE CLUSTER</b>	
93.575 Child Care and Development Block Grant	11,501,566
93.575 Child Care and Development Block Grant: From U of Connecticut	48,608
93.596 Child Care Mandatory and Matching Funds of the Child Care and Development	7,774,601
<b>TOTAL</b>	<b>\$19,324,775</b>

Auditor's Report & Findings

Corrective Action Plan

Summary Schedule of Prior Audit Findings

State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2000

AMOUNT

**MEDICAID CLUSTER**

93.777	State Survey and Certification of Health Care Providers and Suppliers	1,841,928
93.778	Medical Assistance Program	345,758,965
<b>TOTAL</b>		<b>\$347,600,893</b>

**CORPORATION FOR NATIONAL & COMMUNITY SERVICE**

94.003	State Commissions	154,347
94.004	Learn and Serve America-School and Community Based Programs	60,255
94.004	Learn and Serve America-School and Community Based Programs: From Corp For Natl Service	68,746
94.005	Learn & Serve America-Higher Education	62,910
94.005	Learn & Serve America-Higher Education: From Am Assoc of Coll Teacher	13,425
94.006	AmeriCorps	1,626,177
94.009	Training and Technical Assistance	122,356
94.013	Volunteers in Service to America	16,158
94.013	Volunteers in Service to America: From Corp For Natl Service	16,043
<b>TOTAL</b>		<b>\$2,140,417</b>

**SOCIAL SECURITY ADMINISTRATION****DISABILITY INSURANCE/SSI CLUSTER**

96.001	Social Security - Disability Insurance	4,447,377
<b>TOTAL</b>		<b>\$4,447,377</b>

State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2000

AMOUNT

**RESEARCH AND DEVELOPMENT CLUSTER**

**AGENCY FOR INTERNATIONAL DEVELOPMENT**

02.999	Education in Russia	5,000
<b>TOTAL</b>		<b>\$5,000</b>

**DEPARTMENT OF AGRICULTURE**

10.001	Agricultural Research-Basic and Applied Research	562,376
10.025	Plant and Animal Disease, Pest Control, and Animal Care	58,824
10.069	Conservation Reserve Program	8,893
10.200	Grants for Agricultural Research, Special Research Grants	1,751,090
10.200	Grants for Agricultural Research, Special Research Grants: From University of Idaho	87,146
10.200	Grants for Agricultural Research, Special Research Grants: From University of Washington	10,481
10.200	Grants for Agricultural Research, Special Research Grants: From Utah State University	6,414
10.200	Grants for Agricultural Research, Special Research Grants: From Washington St University	8,506
10.202	Cooperative Forestry Research	5,000
10.203	Payments to Agricultural Experiment Stations Under the Hatch Act	1,263
10.206	Grants for Agricultural Research-Competitive Research Grants	1,361,532
10.206	Grants for Agricultural Research-Competitive Research Grants: From Kansas State University	14,632
10.206	Grants for Agricultural Research-Competitive Research Grants: From University of CA, Davis	18,651
10.207	Animal Health and Disease Research	131,365
10.215	Sustainable Agriculture Research and Education: From Utah State University	4,381
10.217	Higher Education Challenge Grants	43,739
10.224	Fund for Rural America-Research, Education, and Extension Activities	310,395
10.224	Fund for Rural America-Research, Education, and Extension Activities: From University of Idaho	96,132
10.224	Fund for Rural America-Research, Education, and Extension Activities: From University of Minnesota	26,693
10.250	Agricultural and Rural Economic Research	113,089
10.350	Technical Assistant to Cooperatives	31,749

Auditor's Report & Findings

Corrective Action Plan

Summary Schedule of Prior Audit Findings

State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2000

	AMOUNT
10.500 Cooperative Extension Service	633,203
10.500 Cooperative Extension Service: From University of Wyoming	13,873
10.500 Cooperative Extension Service: From Utah State University	34,684
10.500 Cooperative Extension Service: From Washington St University	576
10.652 Forestry Research	2,252,364
10.652 Forestry Research: From U of Wyoming	2,135
10.652 Forestry Research: From Washington St University	1
10.664 Cooperative Forestry Assistance	10,135
10.902 Soil and Water Conservation	48,493
10.903 Soil Survey	4,302
10.961 International Agricultural Research Program	29,066
10.999 Miscellaneous Non-Major Grants: From Dull Knife Mem. College	5,501
<b>TOTAL</b>	<b>\$7,686,684</b>

**DEPARTMENT OF COMMERCE**

11.303 Economic Development-Technical Assistance	14,591
11.420 Coastal Zone Management Estuarine Research Reserves: From Bermuda Biostation	6,254
11.427 Fisheries Development & Utilization Research	26,581
11.431 Climate and Atmospheric Research	28,040
11.439 Marine Mammal Data Program	29,105
11.552 Telecommunications and Information Infrastructure Assistance Program	50,945
11.612 Advanced Technology Program	321,719
11.612 Advanced Technology Program: From Business & Educ Instit.	16,947
11.612 Advanced Technology Program: From Ntl Inst Standards & Tech	70,005
<b>TOTAL</b>	<b>\$564,187</b>

**DEPARTMENT OF DEFENSE**

12.002 Procurement Technical Assistance For Business Firms	633,157
12.114 Collaborative Research and Development	174,332
12.300 Basic and Applied Scientific Research	1,737,988
12.300 Basic and Applied Scientific Research: From University of Colorado	260,168



State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2000

	AMOUNT
12.420 Military Medical Research and Development	65,894
12.431 Basic Scientific Research	475,930
12.630 Basic, Applied, and Advanced Research in Science and Engineering	494,726
12.800 Air Force Defense Research Sciences Program	562,325
12.800 Air Force Defense Research Sciences Program: From Laser Photonics Tech	89,422
12.910 Reseach and Technology Development	807,844
12.910 Reseach and Technology Development: From University of Idaho	21,494
<b>TOTAL</b>	<b>\$5,323,280</b>

**DEPARTMENT OF HOUSING & URBAN DEVELOPMENT**

14.200 Grants for Basic Water and Sewer Facilities	64,742
<b>TOTAL</b>	<b>\$64,742</b>

**DEPARTMENT OF THE INTERIOR**

15.034 Agriculture on Indian Lands	(1,581)
15.130 Indian Education: Assistance to Schools	20,737
15.143 Training and Technical Assistance Indian Tribal Governments	1,809
15.200 Bureau of Land Management-Cooperative Assistance Agreement	225,601
15.224 Cultural Resource Management	58,135
15.225 Recreation Resource Management	18,483
15.252 Abandoned Mine Land Reclamation (AMLR) Program	13,942
15.299 Miscellaneous Non-Major Grants	501,280
15.504 Reclamation and Water Reuse Program	16,886
15.600 Anadromous Fish Conservation	84,738
15.608 Fish and Wildlife Management Assistance	1,203,179
15.614 Coastal Wetlands Planning, Protection and Restoration Act	3,491
15.615 Cooperative Endangered Species Conservation Fund	269
15.618 Administrative Grants for Federal Aid in Sport Fish and Wildlife Restoration	(250)
15.699 USDI/Fish & Wildlife Service	49,410
15.805 Assistance to State Water Resources Research Institutes	20,538
15.808 U.S. Geological Survey-Research and Data Acquisition	889,210

Auditor's Report & Findings

Corrective Action Plan

Summary Schedule of Prior Audit Findings

State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2000

		AMOUNT
15.808	U.S. Geological Survey-Research and Data Acquisition: From US Dept of Interior	7,905
15.900	National Archives-NHPRC	200,434
15.904	Historic Preservation Fund Grants-in-Aid: From MT Heritage Preservation	16,201
15.910	National Natural Landmarks Program	89,122
15.912	National Historic Landmark	30,208
15.915	Technical Preservation Services	151,651
15.916	Outdoor Recreation: Acquisition, Development and Planning	27,655
15.921	Rivers, Trails and Conservation Assistance	12,006
15.923	National Center for Preservation Technology and Training	21,108
15.975	Research Information	190,291
15.977	State Partnerships	101,718
15.R&D	Miscellaneous Research and Development	789,915
15.R&D	Miscellaneous Research and Development: From A. Carhart	56,792
	<b>TOTAL</b>	<b>\$4,800,883</b>
<b>DEPARTMENT OF LABOR</b>		
17.248	Employment and Training Research and Development Projects	19,567
	<b>TOTAL</b>	<b>\$19,567</b>
<b>DEPARTMENT OF STATE</b>		
19.406	College & University Affiliations Program	372,580
	<b>TOTAL</b>	<b>\$372,580</b>
<b>DEPARTMENT OF TRANSPORTATION</b>		
20.205	Highway Planning and Construction	301,050
20.701	University Transportation Centers Program	1,179,831
	<b>TOTAL</b>	<b>\$1,480,881</b>
<b>DEPARTMENT OF TREASURY</b>		
21.020	Community Development Financial Institutions Program	410,733
	<b>TOTAL</b>	<b>\$410,733</b>
<b>NATIONAL AERONAUTICS AND SPACE ADMINISTRATION</b>		
43.000	NASA	3,048,063

State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2000

AMOUNT

43.000	NASA: From CA Inst of Technology	4,124
43.000	NASA: From California State Univ	27,548
43.000	NASA: From U Alaska Fairbanks	54,741
43.000	NASA: From U of N Dakota	55,248
43.001	Aerospace Education Services Program	2,065,032
43.001	Aerospace Education Services Program: From Lockheed Martin Corp	735,584
43.001	Aerospace Education Services Program: From U of CA, Berkeley	49,365
43.001	Aerospace Education Services Program: From University of NC-Wilming	30,144
43.001	Aerospace Education Services Program: From University of North Dako	78,108
43.002	Technology Transfer	1,912,994
43.002	Technology Transfer: From University of Wyoming	3,729
43.999	Miscellaneous Non-Major Grants: From U of North Dakota	36,167
43.R&D	Miscellaneous Research and Development	128,508
43.R&D	Miscellaneous Research and Development: From Srch. for Extraterrest.	11,168
43.R&D	Miscellaneous Research and Development: From U of North Dakota	40,340
43.R&D	Miscellaneous Research and Development: From Virginia Tech	9,298
<b>TOTAL</b>		<b>\$8,290,161</b>

**NATIONAL FOUNDATION ON THE ARTS AND THE HUMANITIES**

45.129	Promotion of the Humanities-Federal/State Partnership: From MT Comm Humanities	424
45.149	Promotion of the Humanities Division of Preservation and Access	33,359
<b>TOTAL</b>		<b>\$33,783</b>

**NATIONAL SCIENCE FOUNDATION**

47.041	Engineering Grants	1,913,421
47.049	Mathematical and Physical Sciences	2,454,810
47.049	Mathematical and Physical Sciences: From Skidway Inst Oceanograph	12,284
47.049	Mathematical and Physical Sciences: From Temple University	46,270
47.049	Mathematical and Physical Sciences: From U of Mass	26,811
47.049	Mathematical and Physical Sciences: From U of Missouri	207,453
47.049	Mathematical and Physical Sciences: From University of Alabama	78,776

Auditor's Report & Findings

Corrective Action Plan

Summary Schedule of Prior Audit Findings

State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2000

	AMOUNT
47.050 Geosciences	377,959
47.050 Geosciences: From University of Oregon	8,198
47.070 Computer and Information Science and Engineering	370,719
47.073 Science and Technology Centers	14,621
47.074 Biological Sciences	1,727,900
47.074 Biological Sciences: From Colorado State Univ	9,855
47.074 Biological Sciences: From Iowa State University	5,666
47.074 Biological Sciences: From North Carolina State Uni	14,140
47.074 Biological Sciences: From University of California	227,981
47.075 Social, Behavioral, and Economic Sciences	183,999
47.076 Education and Human Resources	2,280,787
47.076 Education and Human Resources: From Mycotech Corporation	6,000
47.076 Education and Human Resources: From Norion Diag. Innov. Inc.	5,600
47.077 Academic Research Infrastructure	110,108
<b>TOTAL</b>	<b>\$10,083,358</b>

**U.S. SMALL BUSINESS ASSOCIATION**

99.999 Small Business Development Center: From University of Hawaii	202,782
<b>TOTAL</b>	<b>\$202,782</b>

**ENVIRONMENTAL PROTECTION AGENCY**

66.423 Water Quality Control Information	16
66.456 National Estuary Program	229,985
66.460 Nonpoint Source Implementation Grants	338,692
66.460 Nonpoint Source Implementation Grants: From Deerlodge Co.	(13,920)
66.460 Nonpoint Source Implementation Grants: From Glacier Co Conservation	6,563
66.460 Nonpoint Source Implementation Grants: From Hill County Conservation	10,670
66.460 Nonpoint Source Implementation Grants: From Msia Conservation Dist	10,649
66.460 Nonpoint Source Implementation Grants: From Rosebud Co. Conservation	21,270
66.460 Nonpoint Source Implementation Grants: From Teton Co. Conservation	27,146
66.500 Environmental Protection: Consolidated Research	718,391

State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2000

AMOUNT

66.500	Environmental Protection: Consolidated Research: From Kansas State University	67,857
66.502	Pesticides Control Research	81,346
66.504	Solid Waste Disposal	19,292
66.606	Surveys, Studies, Investigations and Special Purpose Grants	469,665
66.607	Training and Fellowships for the Environmental Protection Agency	27,910
66.708	Pollution Prevention Grants Program	36,670
66.802	Superfund State Site - Specific Cooperative Agreements	12,193
66.802	Superfund State Site - Specific Cooperative Agreements: From CDM Fed. Prog. Corp.	189,741
66.802	Superfund State Site - Specific Cooperative Agreements: From CH2M Hill	18,540
66.808	Solid Waste Management Assistance	75,781
<b>TOTAL</b>		<b>\$2,348,457</b>

**DEPARTMENT OF ENERGY**

81.004	University Laboratory Cooperative Program	190,464
81.041	State Energy Program	126,000
81.049	Office of Energy Research Financial Assistance Program	441,109
81.049	Office of Energy Research Financial Assistance Program: From Bonneville Power Admin	2
81.049	Office of Energy Research Financial Assistance Program: From Florida State Univ	5,494
81.049	Office of Energy Research Financial Assistance Program: From Mactec, Inc	80,868
81.049	Office of Energy Research Financial Assistance Program: From Pacific NW Nat'l Lab	216
81.049	Office of Energy Research Financial Assistance Program: From Princeton University	128,235
81.049	Office of Energy Research Financial Assistance Program: From U of Nebraska, Lincoln	36,504
81.049	Office of Energy Research Financial Assistance Program: From U.T. Battelle	23,834
81.064	Office of Scientific and Technical Information	69,295
81.077	University Research Instrumentation	3,407
81.079	Regional Biomass Energy Programs	57,630
81.087	Renewable Energy Research and Development	(17)
81.087	Renewable Energy Research and Development: From Consortuim for Plant Bio	11,408
81.087	Renewable Energy Research and Development: From U of M	9,725

Auditor's Report & Findings

Corrective Action Plan

Summary Schedule of Prior Audit Findings

State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2000

	AMOUNT
81.092 Environmental Restoration	23,476
81.104 Technology Development for Environmental Management: From MSE	504,515
81.104 Technology Development for Environmental Management: From Sandia Labs	32,392
<b>TOTAL</b>	<b>\$1,744,557</b>
<b>FEDERAL EMERGENCY MANAGEMENT AGENCY</b>	
83.521 Earthquake Hazards Reduction Grants: From Dept of Military Affairs	41,247
<b>TOTAL</b>	<b>\$41,247</b>
<b>DEPARTMENT OF EDUCATION</b>	
84.023 Innovation and Development	185,451
84.116 Fund for the Improvement of Postsecondary Education	40,642
84.133 National Institute on Disability and Rehabilitation Research	543,281
84.153 Business and International Education	48,482
84.309 National Institute on Postsecondary Education, Libraries, and Lifelong Learning	45,649
84.314 Even Start - Statewide Family Literacy Program	110,655
84.324 Special Education-Research and Innovation to Improve Services and Results for Children	57,353
<b>TOTAL</b>	<b>\$1,031,513</b>
<b>UNITED STATES INSTITUTE OF PEACE</b>	
91.001 International Peace and Conflict Management-Research and Education	27,881
<b>TOTAL</b>	<b>\$27,881</b>
<b>DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>	
93.113 Biological Response to Environmental Health Hazards	144,369
93.121 Oral Diseases and Disorders Research	49,977
93.121 Oral Diseases and Disorders Research: From University of Tennessee	2,279
93.130 Primary Care Services-Resource Coordination and Development Primary Care Offices: From U of S Dakota	13,296
93.136 Injury Prevention and Control Research and State and Community Based Programs	160,566
93.173 Research Related to Deafness and Communication Disorders	104,006
93.173 Research Related to Deafness and Communication Disorders: From NIH	34,558
93.173 Research Related to Deafness and Communication Disorders: From University of California	46,069

State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2000

	AMOUNT
93.184 Disabilities Prevention	429,415
93.226 Health Care Systems Cost and Access Research and Development Grants: From Norion Diagnostics Innov	(523)
93.242 Mental Health Research Grants	251,170
93.242 Mental Health Research Grants: From Behavior Tech Group	19,247
93.279 Drug Abuse Research Programs	71,501
93.282 Mental Health National Research Service Awards for Research Training	31,486
93.283 Centers for Disease Control and Prevention-Investigations and Technical Assistance	197,685
93.337 Biomedical Research Support: From Am Physiological Soc	4,775
93.360 General Medical Sciences	13,898
93.361 Nursing Research	171,062
93.371 Biomedical Technology	400,000
93.371 Biomedical Technology: From University of Washington	26,539
93.375 Minority Biomedical Research Support	225,931
93.389 Research Infrastructure	117,537
93.395 Cancer Treatment Research	334,069
93.595 Welfare Reform Research, Evaluations and National Studies	187,696
93.779 Health Care Financing Research, Demonstrations and Evaluations	107,082
93.821 Cell Biology and Biophysics Research	25,357
93.837 Heart and Vascular Diseases Research	152,617
93.846 Arthritis, Musculoskeletal and Skin Diseases Research	207,292
93.847 Diabetes, Endocrinology and Metabolism Research	8,435
93.849 Kidney Diseases, Urology and Hematology Research	7,316
93.854 Biological Basis Research in the Neurosciences	433,848
93.854 Biological Basis Research in the Neurosciences: From U of California-Irvine	21,779
93.855 Allergy, Immunology and Transplantation Research	990,211
93.856 Microbiology and Infectious Diseases Research	2,628,641
93.856 Microbiology and Infectious Diseases Research: From Washington University	13,322
93.859 Pharmacology, Physiology, and Biological Chemistry Research	785,904
93.862 Genetics and Developmental Biology Research	311,310

Auditor's Report & Findings

Corrective Action Plan

Summary Schedule of Prior Audit Findings

State of Montana  
Schedule of Expenditures of Federal Awards  
For the Fiscal Year Ending June 30, 2000

	AMOUNT
93.864 Population Research	56,879
93.865 Center for Research for Mothers and Children	30,662
93.905 Indian Health Service Research: From Indian Health Service	1,382
93.906 Rural Health Medical Education Demonstration Projects	87,733
93.922 Minority Apprenticeship Program	80,591
<b>TOTAL</b>	<b>\$8,986,969</b>

**CORPORATION FOR NATIONAL & COMMUNITY SERVICE**

94.005 Learn & Serve America-Higher Education: From Montana Campus Consortiu	2,813
<b>TOTAL</b>	<b>\$2,813</b>

<b>TOTAL RESEARCH AND DEVELOPMENT CLUSTER</b>	<b>\$53,522,058</b>
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<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>	<b>\$1,249,597,751</b>
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STATE OF MONTANA  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2000

**Note 1. Basis of Accounting**

The assistance amounts presented in the accompanying Schedule of Expenditures of Federal Awards of the State of Montana are generally expenditures or reimbursement revenues recorded on the modified accrual basis. This method recognizes expenditures in the accounting period in which the liability is incurred and revenues when measurable and available. Assistance amounts reported on a basis other than modified accrual are discussed below.

**Food Distribution Program**

The amount reported for Food Distribution programs (CFDA #10.567, #10.569, #10.570 and #10.565) represent the dollar value of food commodities distributed to eligible recipients during the year. The U.S. Department of Agriculture provides the current value of the commodities used by the state to compute the amount reported. The amount of funds received to administer the program is also included in the reported amount. Montana also distributes food commodities to other states in the western region of the United States, the value of which is excluded from the reported amounts. During fiscal year 2000, Montana distributed \$735,063 of food commodities under CFDA #10.567 to other states.

The state of Montana distributed \$5,397,031 in commodities in fiscal year 2000. The value at June 30, 2000 of commodities stored at the state's warehouse is \$2,282,857 for which the state is liable in the event of loss. The state has insurance to cover this liability.

**Federal Surplus Personal Property**

In accordance with General Service Administration guidelines, the amount presented for Donations of Federal Surplus Personal Property (CFDA #39.003) is 23.3 percent of the original acquisition cost of the property.

**Capitalization Grants for State Revolving Funds**

The amount presented for the Capitalization Grants for Water Pollution Control State Revolving Fund (CFDA #66.458) represents the administrative costs expended as of June 30. The amount of loans outstanding as of June 30, 2000 in the Water Pollution Control Revolving Fund Program is \$44,579,454.

The amount presented for the Drinking Water State Revolving Fund Program (CFDA #66.468) represents administrative costs expended as of June 30, 2000. The amount of loans outstanding for the program as of June 30, 2000 is \$18,799,372.

Special Economic Development and Adjustment Assistance Program

The amount presented for the Special Economic Development and Adjustment Assistance Program (CFDA #11.307) represents federal contributions, plus the administrative costs expended as of June 30. The amount of loans outstanding as of June 30, 2000 is \$655,000.

Federal Family Education Loans

The Montana Guaranteed Student Loan Program (MGSLP) guaranteed \$77,793,008 in new loans for the Federal Family Education Loans (CFDA #84.032) program during FY 2000. The outstanding loan balance (including principle, accrued interest and collection costs) of loans guaranteed in previous years for which the federal government has imposed continuing compliance requirements was \$69,643,403 at June 30, 2000. The amount reported on the accompanying Schedule of Expenditures of Federal Awards represents the administrative cost allowance received for the program. In addition to the administrative cost allowance, MGSLP received or accrued revenue from the U.S. Department of Education in FY 2000 of \$14,676,206 for reinsurance to pay claims for loans due to death, disability, default and bankruptcy of the debtor

Federal Perkins Loan Program – Federal Capital Contributions

The amount reported for the Federal Perkins Loan Program – Federal Capital Contributions (CFDA #84.038) represents federal contributions, plus the administrative costs, plus interest expended as of June 30, 2000. The amount of loans outstanding as of June 30, 2000 is \$27,584,132

Nursing Student Loan Program

The amount of loans outstanding for the Nursing Student Loan Program (CFDA #93.364) as of June 30, 2001 is \$1,334,698.

Childhood Immunization Grants

The amount reported for the Childhood Immunization Grants (CFDA #93.268) includes the dollar value of vaccine doses received during fiscal year 2000. The state used the CDC price list to calculate the value of doses received. During fiscal year 2000, Montana received 180,592 vaccine doses valued at \$1,946,762.

Tongue River –Northern Cheyenne Tribal Loan

The Northern Cheyenne Tribe and the Department of Natural Resources and Conservation entered into an agreement on July 1, 1994 in which the tribe agreed to loan the State of Montana \$11,500,000 of federal funds appropriated as part of the Northern Cheyenne Indian Reserved Water Rights Settlement. The loan is to assist the state in financing costs of the Tongue River Dam project. The amount of the loan outstanding as of June 30, 2000 is \$11,010,256.

## Note 2. Type A Federal Programs

The Single Audit Act Amendments of 1996 and OMB Circular A-133 establish the level of federal award expenditures to be used in defining Type A and Type B federal assistance programs. Type A programs for the state of Montana are those which total federal awards expenditures equal or exceed \$7,936,832 for the biennial period.

## Note 3. CFDA #

The CFDA # assigned for each federal program listed in the Schedule of Expenditures of Federal Awards was based upon agency agreements with the federal government and the Catalog of Federal Domestic Assistance in effect during the audit period.

Programs not assigned a CFDA # in the Catalog of Federal Domestic Assistance were assigned a CFDA # in the format \*\*.99, \*\*.999, or \*\*.R&D. The first two digits represent the federal agency, the third digit represents the division within the federal agency, and "R&D" designation represents a research and/or development program. Research is defined as a systematic study directed toward fuller scientific knowledge or understanding of the subject studied. The term research also includes activities involving the training of individuals in research techniques where such activities utilize the same facilities as other research and development activities and where such activities are not included in the instruction function. Development is the systematic use of knowledge and understanding gained from research directed toward the production of useful materials, devices, systems, or methods, including design and development of prototypes and processes. In cases where the federal agency does not have a designated CFDA#, the program was assigned a CFDA# in the format 99.999.

## Note 4. Federal Excess Personal Property

The State of Montana receives Federal Excess Personal Property (FEPP). The title to this property remains with the federal agency. In accordance with General Services Administration guidelines, the amount presented in the FEPP is 23.3 percent of the original acquisition cost of the property. The following is a list of the FEPP received by the State of Montana.

CFDA #	Program	FY00 Amount	Inventory
10.664	Cooperative Forestry Assistance	\$865,022	\$5,816,441
12.999	Department of Defense	2,796	64,411
47.999	National Science Foundation	215,342	936,936
93.103	Food/Drug Administration Research	0	1,282

**Note 5. Books for the Blind and Physically Handicapped:**

The Montana State Library receives "talking book" machines, cassette books, accessories and magazines from the federal government under the Blind and Physically Handicapped program (CFDA #42.001). These items are then distributed to provide library services to blind and physically handicapped individuals. The federal government retains title to these items. The approximate value of the items in inventory (not distributed to individuals) at June 30, 2000, was \$1,965,895. The accompanying Schedule of Expenditures of Federal Awards does not include this amount.

**Note 6. Unemployment Benefits**

The unemployment compensation system is a Federal-State partnership. State Unemployment Insurance laws must conform to certain provisions of the federal law. The federal funds are expended for administrative costs. The state unemployment taxes must be deposited into a state account in the Federal Unemployment Trust Fund, used only to pay benefits. State Unemployment Insurance (UI) funds, as well as federal funds, are included on the Schedule of Expenditures of Federal Awards (SEFA). The following schedule provides a breakdown of the state and federal portions of the total expenditures recorded for CFDA #17.225.

UI Administrative Costs	\$8,906,829
State UI Funds	55,156,773
Federal UI Funds	3,356,127
Total	\$67,419,729

**Note 7. Subgrants to State Agencies**

Federal assistance subgranted from one Montana state agency to another Montana state agency is shown only once on the Schedule of Expenditures of Federal Awards.

Federal assistance received from nonstate sources which are considered subgrants by the awarding agency are treated as pass through grants to the state and are reported on the Schedule of Expenditures of Federal Awards.

**Note 8. Subgrants to Non-State Entities**

The following is a list of federal funds passed through from the state of Montana to non-state entities for fiscal year 2000.

<i>CFDA Number</i>	<i>Program Title</i>	<i>Amount Provided To Subrecipient</i>
10.001	Agricultural Research-Basic and Applied Research	28,720
10.069	Conservation Reserve Program	5,000
10.200	Grants for Agricultural Research, Special Research Grants	368,397
10.206	Grants for Agricultural Research & Competitive Research Grants	28,977
10.207	Animal Health and Disease Research	13,800
10.224	Fund for Rural America - Research, Education, and Extension Activities	301,007
10.500	Cooperative Extension Service	31,959
10.553	School Breakfast Program	2,885,177
10.555	National School Lunch Program	14,487,404
10.556	Special Milk Program for Children	38,723
10.557	Special Supplemental Nutrition Program for WIC	3,203,706
10.558	Child and Adult Care Food Program	8,841,531
10.559	Summer Food Program for Children	503,183
10.570	Nutrition Program for the Elderly (Commodities)	621,641
10.902	Soil and Water Conservation	5,424
10.999	Department of Agriculture - Miscellaneous	2,085,834
11.609	Measurement and Engineering Research and Standards	1,032,309
12.002	Procurement Technical Assistance For Business Firms	22,799
12.300	Basic and Applied Scientific Research	54,122
12.431	Basic Scientific Research	57,183
12.800	Air Force Defense Research Sciences Program	50,978
12.900	Language Grant Program	22,901
12.910	Research & Technology Development	11,938
14.149	Rent Supplements-Rental Housing for Lower Income Families	55,157
14.228	Community Development Block Grant/State's Program	7,382,206
14.239	Home Investment Partnerships Program	4,093,422
14.855	Section 8 Rental Voucher Program	554,205
14.856	Lower Income Housing Assistance Program - Section 8 Moderate Rehab	141,777
14.857	Section 8 Rental Certificate Program	294,444
14.999	Miscellaneous Non-Major Program	3,536
15.299	Miscellaneous Non-Major Grants	42,860
15.608	Fish and Wildlife Management Assistance	211,811
15.805	Assistance to State Water Resources Research Institutes	(19,900)
15.910	National Natural Landmarks Program	45,012
15.912	National Historic Landmark	34,114
15.915	Technical Preservation Services	57,032
15.921	Rivers, Trails and Conservation Assistance	2,984
15.923	National Center for Preservation Technology and Training	18,589
15.975	Research Information	14,165
16.523	Juvenile Accountability Incentive Block Grants	922,079
16.540	Juvenile Justice and Delinquency Prevention: Allocation to States	517,126
16.548	Title V Delinquency Prevention Program	113,641
16.549	Part E State Challenge Activities	42,500
16.575	Crime Victim Assistance	1,352,402
16.579	Byrne Formula Grant Program	1,610,801
16.588	Violence Against Women Formula Grant	638,550
16.592	Local Law Enforcement Block Grant Program	183,627
17.249	Employment Services and Job Training: Pilot and Demo. Programs	2,659,762
17.250	Job Training Partnership Act (JTPA)	242,412
19.999	Department of State -Miscellaneous	71,543
20.205	Highway Planning and Construction	4,230,569
20.219	Recreational Trails	745,423
20.505	Federal Transit Technical Studies Grant	101,989
20.507	Federal Transit Capital and Operating Assistance Formula Grant	833,594
20.513	Capital Assistance Program for the Elderly and Persons with Disabilities	469,914
20.600	State and Community Highway Safety	214,104
20.701	University Transportation Centers Program	27,454
20.703	Interagency Hazardous Materials Public Sector Training and Planning Grants	15,198
21.999	Treasury/US Customs	28,119

**Auditor's Report & Findings**

**Corrective Action Plan**

**Summary Schedule of Prior  
Audit Findings**

<i>CFDA Number</i>	<i>Program Title</i>	<i>Amount Provided To Subrecipient</i>
43.000	NASA	141,150
43.001	Aerospace Education Services Program	36,386
43.002	Technology Transfer	89,804
43.999	Miscellaneous NASA	22,000
45.025	Promotion of the Arts-Partnership Agreements	215,635
45.301	Institute of Museum and Library Services	25,384
47.041	Engineering Grants	121,822
47.049	Mathematical and Physical Sciences	255,705
47.074	Biological Sciences	91,297
47.076	Education and Human Resources	359,651
59.000	SBDC/Microloan	109,325
59.037	Small Business Development Center	435,275
66.418	Construction Assistance for Waste Water Treatment	39,507
66.466	National Estuary Program	226,027
66.500	Environmental Protection: Consolidated Research	67,232
81.087	Renewable Energy Research and Development	965
83.516	Disaster Assistance	884,792
83.534	Emergency Management State & Local Assistance	69,829
83.552	Emergency Management Performance Grants	204,335
84.002	Adult Education-State Grant Program	1,008,774
84.010	Title I Grants to Local Educational Agencies	26,161,812
84.011	Migrant Education-Basic State Grant Program	674,138
84.013	Title I Program for Neglected and Delinquent Children	64,860
84.024	Early Education for Children with Disabilities	8,657
84.027	Special Education - Grants to States	11,514,598
84.029	Special Education - Personnel Development and Parent Training	653
84.048	Vocational Education - Basic Grants to States	3,643,892
84.069	State Student Incentive Grants	12,496
84.086	Special Education Program for Severely Disabled Children	28,532
84.116	Fund for the Improvement of Postsecondary Education	9,461
84.133	National Institute on Disability and Rehabilitation Research	36,501
84.153	Business and International Education	3,075
84.154	Public Library Construction and Technology Enhancement	10,000
84.158	Secondary Education and Transitional Services for Youth with Disabilities	9,496
84.162	Immigrant Education	29,767
84.173	Special Education - Preschool Grants	1,164,400
84.186	Safe & Drug Free Schools and Communities - State Grants	1,892,944
84.195	Bilingual Education - Professional Development	36,000
84.196	Education for Homeless Children and Youth	49,739
84.213	Even Start - State Educational Agencies	608,856
84.214	Even Start - Migrant Education	71,075
84.215	Fund for the Improvement of Education	14,542
84.216	Capital Expense	4,751
84.224	Assistive Technology	34,870
84.235	Special Projects & Demonstrations for Providing Vocation Rehab Services	64,049
84.243	Tech-Prep Education	402,940
84.281	Eisenhower Professional Development State Grants	1,206,396
84.298	Innovative Education Program Strategies	1,622,454
84.303	Technology Innovation Challenge Grants	12,500
84.309	National Institute on Postsecondary Ed, Libraries, & Lifelong Learning	3,802
84.318	Technology Literacy Challenge Fund Grants	2,804,910
84.332	Comprehensive School Reform Demonstration	425,383
84.334	Gaining Early Awareness and Readiness for Undergraduate Programs	153,940
84.340	Class Size Reduction	5,286,445
93.041	Special Programs for the Aging -Title VII, Chapter 3: Prevention	350
93.042	Special Programs for the Aging -Title VII, Chapter 2: Long Term Care	34,146
93.043	Special Programs for the Aging - Title III, Part F: Disease Prevention	77,521
93.044	Special Programs for the Aging - Title III, Part B: Supportive Services	1,252,567
93.045	Special Programs for the Aging - Title III, Part C: Nutrition Services	2,165,376
93.046	Special Programs for the Aging - Title III, Part D: In Home Services	11,545



<i>CFDA Number</i>	<i>Program Title</i>	<i>Amount Provided To Subrecipient</i>
93.048	Special Programs for the Aging - Title IV; Training, Research	885
93.110	Maternal and Child Health Federal Consolidated Programs	69,011
93.150	Projects for Assistance in Transition from Homelessness (PATH)	294,437
93.184	Disabilities Prevention	83,287
93.217	Family Planning Services	779,926
93.223	Development and Coordination of Rural Health Services	18,189
93.230	Consolidated Knowledge Development and Application (KD&A) Program	890,989
93.235	Abstinence Education	68,884
93.283	Centers for Disease Control and Prevention-Investigations and Technical Assis	23,235
93.556	Family Preservation and Support Services	467,580
93.558	Temporary Assistance for Needy Families (TANF)	193,249
93.566	Refugee and Entrant Assistance-State Administered Programs	87,077
93.575	Child Care and Development Block Grant	5,757,355
93.576	Refugee and Entrant Assistance-Discretionary Grants	40,757
93.600	Head Start	49,394
93.656	Temporary Child Care and Crisis Nurseries	9,641
93.658	Foster Care Title IV-E	1,108,764
93.669	Child Abuse and Neglect State Grants	150,999
93.671	Family Violence Prevention and Services/Grants for Battered Women	433,087
93.674	Independent Living	126,716
93.778	Medical Assistance Program	68,974
93.779	Health Care Financing Research, Demonstrations, and Evaluations	96,924
93.854	Biological Basis Research in the Neurosciences	22,594
93.856	Microbiology and Infectious Diseases Research	7,480
93.912	Rural Outreach & Rural Network Development Program	19,912
93.951	Demonstration Grants to States with Respect to Alzheimers Disease	128,506
93.959	Block Grants for Prevention and Treatment of Substance Abuse	4,252,008
93.991	Preventive Health and Health Services Block Grant	171,000
93.994	Maternal and Child Health Services Block Grant to the States	1,161,797
93.999	General	51,216
94.004	Learn and Serve America - School and Community Based Program	102,969
94.005	Learn and Serve America - Higher Education	5,009
94.006	Americorps	1,650,328
	<b>TOTAL</b>	<b>147,061,447</b>

**Auditor's Report & Findings**

**Corrective Action Plan**

**Summary Schedule of Prior  
Audit Findings**





# LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor  
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Jim Pellegrini, Performance Audit  
Tori Hunthausen, IS Audit & Operations  
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## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF GENERAL PURPOSE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Legislative Audit Committee  
of the Montana State Legislature:

We have audited the general purpose financial statements of the state of Montana as of and for the fiscal year ended June 30, 2000, and have issued our report thereon dated March 19, 2001. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether the state of Montana's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance, which we have reported to the management of the state of Montana during the course of our audit work.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the state of Montana's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the state of Montana's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions noted are described below:

1. We identified several issues at the Montana Department of Public Health and Human Services and Department of Environmental Quality related to fiscal control and accountability. These issues could have been prevented, or detected and corrected in a timely manner, if the agencies had an efficient and effective financial management control structure in place.

2. Montana Department of Public Health and Human Services personnel did not completely reconcile some of its automated data processing subsystems to the primary accounting system. The department's financial records may be misstated and thus misleading to users and federal reports could be misstated.
3. The Public Employees Retirement Administration (PERA) is responsible for the state's Section 457 Deferred Compensation Program. The day-to-day record keeping is contracted to a private company. The company tracks participant contributions, investments and investment earnings. PERA personnel record activity and balances on the state's accounting system based on reports provided by the contractor. PERA personnel did not record or incorrectly recorded transactions on the state's accounting records during fiscal year 1999-00.
4. The Department of Environmental Quality receives checks and currency as payment for environmental impact statement studies, licenses and permits, and fines. One employee is responsible for custody of the collections, updating accounts receivable on the database, preparing the required accounting system transactions and the treasury deposit ticket, and making the deposit. No one person should perform all these functions. An effective system of internal controls will provide reasonable assurance the collections and deposit procedures are properly performed.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider the reportable condition related to fiscal control and accountability at Montana Department of Public Health and Human Services to be a material weakness. We also noted other matters involving the internal control over financial reporting, which we have reported to the management of the state of Montana during the course of our audit work.

This report is intended for the information and use of the Legislative Audit Committee, state of Montana management, the Montana State Legislature, and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Respectfully submitted,



James Gillett, CPA  
Deputy Legislative Auditor

March 19, 2001

**Auditor's Report & Findings**

**Corrective Action Plan**

**Summary Schedule of Prior  
Audit Findings**



# Auditor's Report & Findings

## Table of Contents

Independent Auditor's Report on Compliance With Requirements Applicable to Each Major Program And on Internal Control Over Compliance in Accordance With OMB Circular A-133.....	Page C-1
---	----------

## Schedule of Findings and Questioned Costs:

Section I – Summary of Auditor's Results.....	Page C-3
---	----------

Section II – Financial Statement Findings.....	Page C-5
--	----------

Section III – Federal Award Findings and Questioned Costs .....	Page C-13
--	-----------

<b>Department of Agriculture</b>	2-1 .....	Page C-13
	2-2 .....	Page C-14
	2-3 .....	Page C-16
	2-43 .....	Page C-60
	2-45 .....	Page C-62
	2-47 .....	Page C-64
	2-48 .....	Page C-65
	2-54 .....	Page C-71

<b>Department of Defense</b>	2-4 .....	Page C-19
	2-53 .....	Page C-70

<b>Department of Housing and Urban Development</b>	2-5 .....	Page C-20
	2-6 .....	Page C-21

<b>Department of the Interior</b>	2-7 .....	Page C-22
	2-9 .....	Page C-24
	2-10 .....	Page C-25
	2-11 .....	Page C-26
	2-20 .....	Page C-36

<b>Department of Labor</b>	2-12 .....	Page C-27
	2-13 .....	Page C-29
	2-14 .....	Page C-30
	2-15 .....	Page C-31
	2-16 .....	Page C-32
	2-17 .....	Page C-33
	2-42 .....	Page C-59

## Auditor's Report & Findings

---

	2-46 .....	Page C-63
<b>Department of Transportation</b>	2-18 .....	Page C-34
<b>Environmental Protection Agency</b>	2-8 .....	Page C-23
	2-19 .....	Page C-35
	2-20 .....	Page C-36
	2-49 .....	Page C-66
	2-50 .....	Page C-67
<b>Department of Energy</b>	2-20 .....	Page C-36
<b>Department of Education</b>	2-2 .....	Page C-14
	2-3 .....	Page C-16
	2-12 .....	Page C-27
	2-21 .....	Page C-37
	2-45 .....	Page C-62
	2-47 .....	Page C-64
	2-48 .....	Page C-65
	2-51 .....	Page C-68
	2-52 .....	Page C-69
<b>Department of Health and Human Services</b>	2-2 .....	Page C-14
	2-3 .....	Page C-16
	2-22 .....	Page C-38
	2-23 .....	Page C-39
	2-24 .....	Page C-40
	2-25 .....	Page C-41
	2-26 .....	Page C-42
	2-27 .....	Page C-43
	2-28 .....	Page C-44
	2-29 .....	Page C-45
	2-30 .....	Page C-46
	2-31 .....	Page C-47
	2-32 .....	Page C-48
	2-33 .....	Page C-49
	2-34 .....	Page C-50
	2-35 .....	Page C-51
	2-36 .....	Page C-52
	2-37 .....	Page C-54
	2-38 .....	Page C-55
	2-39 .....	Page C-56
	2-44 .....	Page C-61
	2-47 .....	Page C-64
	2-48 .....	Page C-65

## Auditor's Report & Findings

---

Department of Social Security	2-47 .....	Page C-64
Administration	2-48 .....	Page C-65
Various Federal Agencies	2-40 .....	Page C-57
	2-41 .....	Page C-58

**FY01 Financial Section**

**FY00 Financial Section**

**Auditor's Report & Findings**



# LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor  
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Deputy Legislative Auditors:  
Jim Pellegrini, Performance Audit  
Tori Hunthausen, IS Audit & Operations  
James Gillett, Financial-Compliance Audit

## INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Legislative Audit Committee  
of the Montana State Legislature:

### Compliance

We have audited the compliance of the state of Montana with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the fiscal years ended June 30, 2000, and June 30, 2001. The state of Montana's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the state of Montana's management. Our responsibility is to express an opinion on the state of Montana's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the state of Montana's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the state of Montana's compliance with those requirements.

As described in Section III finding #2-40, in the accompanying Schedule of Findings and Questioned Costs, The University of Montana geology department does not appropriately certify employee time and effort reports as required by federal regulation. Compliance with such requirements is necessary, in our opinion, to comply with the requirements applicable to Various Federal Agencies in the Research and Development Cluster as identified in finding #2-40.

As described in Section III finding #2-8, in the accompanying Schedule of Findings and Questioned costs, the Department of Environmental Quality does not submit Federal Cash Transaction Reports for any of its federal programs as required by federal regulations. Compliance with such requirements is necessary, in our opinion, to comply with the requirements applicable to the U.S. Department of Interior as identified in finding #2-8.

In our opinion, except for the noncompliance described in the preceding two paragraphs, the state of Montana complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the fiscal years ended June 30, 2000, and June 30, 2001. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which

are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying Schedule of Findings and Questioned Costs, Section III, findings: #2-2, #2-4, #2-5, #2-6, #2-7, #2-9, #2-10, #2-11, #2-14, #2-16, #2-17, #2-18, #2-20, #2-21, #2-23, #2-24, #2-25, #2-26, #2-27, #2-30, #2-31, #2-32, #2-33, #2-34, #2-35, #2-36, #2-37, #2-38, #2-39, #2-41, #2-42, #2-46, #2-51, #2-52, and #2-53.

#### Internal Control Over Compliance

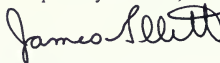
The management of the state of Montana is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the state of Montana's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the state of Montana's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs, Section III, findings: #2-1, #2-3, #2-8, #2-12, #2-13, #2-15, #2-19, #2-22, #2-28, #2-29, #2-40, #2-43, #2-44, #2-45, #2-47, #2-48, #2-49, #2-50 and #2-54.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider Section III, findings: #2-8, #2-40, and #2-47 to be a material weakness.

This report is intended for the information of the Legislative Audit Committee, state of Montana management, the Montana State Legislature, federal awarding agencies, and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Respectfully submitted,



James Gillett, CPA  
Deputy Legislative Auditor

March 8, 2002

State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001

**Section I – Summary of Auditor’s Results**

**General Purpose Financial Statements**  
**For Each of the Fiscal Years 2000 and 2001**

Type of auditor’s report issued:	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes
• Reportable condition(s) identified that are not considered to be a material weakness?	Yes
Noncompliance material to the financial statements noted?	No

**Federal Awards**

Internal control over major programs:	
• Material weakness(es) identified?	Yes
• Reportable condition(s) identified that are not considered to be a material weakness?	Yes
Type of auditor’s report issued on compliance for major programs:	Qualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	Yes

**Identification of major programs:**

<b><u>CFDA Number(s)</u></b>	<b><u>Name of Federal Program or Cluster</u></b>
10.551 & 10.561	Food Stamp Cluster
10.553, 10.555, 10.556, & 10.559	Child Nutrition Cluster
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
10.558	Child and Adult Care Food Program
10.567	Food Distribution Program on Indian Reservations
10.665 & 10.666	Schools & Roads Cluster
12.401	National Guard Military Operations & Maintenance Projects
14.182, 14.195 & 14.856	Section 8 Project-Based Cluster
14.228	Community Development Block Grant Program
14.239	HOME Investment Partnerships Program

**State of Montana**  
**Schedule of Findings and Questioned Costs**  
**For the Two Fiscal Years Ended June 30, 2001**

**Section I – Summary of Auditor's Results**

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.855, 14.857 & 14.871	Section 8 Cluster
15.605 & 15.611	Fish & Wildlife Cluster
17.207, 17.801, & 17.804	Employment Services Cluster
17.225	Unemployment Insurance
17.246 & 17.250	Job Training Partnership Act Cluster
20.205 & 23.003	Highway Planning and Construction Cluster
66.458	Capitalization Grants for State Revolving Funds
66.468	Capitalization Grants for Drinking Water State Revolving Fund
83.542	Fire Suppression Assistance
84.007, 84.032, 84.033, 84.038, 84.063, 84.268, 93.108, 93.342, 93.364, 93.820, & 93.925	Student Financial Assistance Cluster
84.010	Title I Grants to Local Educational Agencies
84.027 & 84.173	Special Education Cluster
84.048	Vocational Education – Basic Grants to States
84.126	Rehabilitation Services – Vocational Rehabilitation Grants to States
84.340	Class Size Reduction
93.044 & 93.045	Aging Cluster
93.558	Temporary Assistance for Needy Family Program
93.563	Child Support Enforcement – Title IV-D
93.568	Low Income Home Energy Assistance
93.575 & 93.596	Child Care Cluster
93.658	Foster Care – Title IV-E
93.667	Social Services Block Grant
93.767	CHIP
93.775, 93.777, & 93.778	Medicaid Cluster
93.959	Block Grants – Prevention and Treatment of Substance Abuse
96.001 & 96.006	Disability Insurance/SSI Cluster
Various	Research and Development Cluster
Dollar threshold used to distinguish between Type A and Type B programs.	\$7,936,832
Auditee qualified as low-risk auditee?	No

**State of Montana**  
**Schedule of Findings and Questioned Costs**  
**For the Two Fiscal Years Ended June 30, 2001**

**Section II – Financial Statement Findings**

**Finding #1-1**

**Criteria:** Internal Control Structure

The National Commission on Fraudulent Financial Reporting (the Treadway Commission) was created in 1985 by the joint sponsorship of five organizations, which composed the Committee of Sponsoring Organizations (COSO):

- The American Institute of Certified Public Accountants
- The American Accounting Association
- The Institute of Management Accountants (formerly the National Association of Accountants)
- The Financial Executives Institute

In 1987, the Treadway Commission recommended COSO develop a common definition of internal control and provide guidance to assist management to better control its organization. COSO issued a document titled *Internal Control – An Integrated Framework*. The definition of internal control includes five elements: control environment, risk assessment, control activities, information and communication, and monitoring.

**Condition:** The Montana Department of Public Health and Human Services' (department) audit report discusses issues related to fiscal and legal accountability within the department. The department could have prevented, or detected in a timely manner, many of these errors if it developed and implemented a sound internal control structure as we recommended in our two prior audit reports. Management has not implemented a control structure adequate to prevent, or timely detect and correct, errors in its financial records and fails to comply with program requirements.

**Questioned Costs:** No questions costs were identified.

**Context:** The department spends in excess of \$974 million per year for program benefits and administration. Of that total, more than \$675.7 million per year was provided by federal agencies. The department has offices and facilities located geographically throughout the state of Montana and employs 2,702 budgeted full-time equivalent employees working in nine divisions.

**Effect:** The department's financial management control structure is not able to prevent or detect many errors. Because of this weakness, the department cannot ensure payments are made to eligible individuals or to others for allowable purposes. The department's inefficient transaction processing does not accurately support federal reporting, does not demonstrate accurate allocation of costs between state and federal programs, and does not prevent discrepancies from existing between the state's primary accounting system and the department's subsystems. The department is not meeting its fiscal and legal responsibilities.

**Cause:** According to department management, implementation of this recommendation has been hampered by continuing turnover within the Fiscal Bureau; including turnover in supervisory positions, and unforeseen resource demands for implementing the state's new accounting system. Since the issuance of the prior audit report, the department has reorganized certain functions within the Operations and

Technology Division in order to improve operational efficiency and communications. The department has also created a separate Fiscal Policy Office, which provides oversight and assistance in establishing internal control and fiscal policy for the department. In addition, the department hired a deputy director in August 2001 who will be responsible for oversight of department operations, including financial matters, and an internal auditor in October 2001.

**Recommendation:** We recommend the department implement a financial management control structure to assure financial accountability and compliance with state and federal laws and regulations.

**State of Montana**  
**Schedule of Findings and Questioned Costs**  
**For the Two Fiscal Years Ended June 30, 2001**

**Section II – Financial Statement Findings**

**Finding #1-2**

**Criteria:** Montana state law, section 17-1-102(4), MCA, states in part, that all state agencies shall input all necessary transactions to the accounting system before the accounts are closed at the end of the fiscal year in order to present the receipt, use, and disposition of all money and property for which the agency is accountable in accordance with generally accepted accounting principles.

**Condition:** The Montana Department of Public Health and Human Services (department) does not completely reconcile its automated data processing subsystems to the state's primary accounting system (SABHRS).

**Questioned Costs:** No questioned costs were identified.

**Context:** Department personnel use the Agency Wide Accounting and Client Systems (AWACS) to generate vendor and provider payments. It is also used to prepare financial reports for federal grants. The department uses the Child and Adult Protective Services (CAPS) system to record several types of activity. One of the modules in the CAPS system is used to account for foster care trust accounts. Foster Care IV-E expenditures for fiscal years 1999-00 and 2000-01 were approximately \$11 million. The department uses its Advanced Revelation (AREV) system to establish accounts receivable for its laboratory operations. The Public Health Laboratory utilizes the AREV system and had an accounts receivable amount of \$231,666 as of June 30, 2001.

**Effect:** The department's financial records may be misstated and thus misleading to users and federal reports could be misstated.

**Cause:** AWACS - Department personnel noted that AWACS and SABHRS coding are not consistent in some cases, which makes reconciling difficult. During the prior audit, the department had not completely reconciled AWACS to the accounting records during fiscal year 1997-98 and 1998-99. Personnel said certain adjustments to data made directly to the SABHRS are not made on AWACS.

CAPS - The department did make some adjustment to SABHRS in fiscal year 1999-00, so that totals in CAPS matched totals in SABHRS. However, the adjustments were not done based on reconciliation between the two systems. Department personnel said that they were having problems with SABHRS accepting journals so they made the decision to not track the errors and to adjust SABHRS using CAPS totals as support.

AREV – A monthly comparison between SABHRS and AREV is done to determine differences, SABHRS is adjusted but the two systems do not necessarily reflect true balances. By adjusting SABHRS so it reflects AREV amounts, the department is not considering transactions that are only recorded on SABHRS and not AREV.

**Recommendation:** We recommend the department implement policies and procedures to ensure timely completion and resolution of reconciliations between the state's accounting system and the department's various subsystems.



State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001

**Section II – Financial Statement Findings**

**Finding # 1-3**

**Criteria:** Montana state law section 17-1-102(4), MCA, states in part, that all state agencies shall input all necessary transactions to the accounting system before the accounts are closed at the end of the fiscal year in order to present the receipt, use, and disposition of all money and property for which the agency is accountable in accordance with generally accepted accounting principles.

**Condition:** Administrative responsibility for the state's Section 457 Deferred Compensation Plan transferred to the Public Employees' Retirement Board (PERB) effective July 1, 1999. The day-to-day record keeping function for participant accounts is contracted to a private company. The company tracks participant contributions, investments, and investment earnings. Public Employee Retirement Administration (PERA) personnel record activity and balances on the state's accounting system based on reports provided by the contractors. PERA personnel did not record, or incorrectly recorded, several transactions on the state's accounting records during fiscal year 1999-00.

**Questioned Costs:** No questioned costs were identified.

**Context:** At June 30, 2000, the plan's assets exceeded \$211 million. Revenues for the year totaled over \$27.2 million and expenses were in excess of \$8.6 million.

**Effect:** The errors and omissions in transaction process resulted in misstatements on the state's accounting records at and as of June 30, 2000. Fund balance at July 1, 1999, was overstated by \$3,126,747; assets were overstated by \$12,645,016; liabilities were overstated by \$3,343,500; revenues were overstated by \$6,173,750; expenses were understated by \$1,019; and fund balance at June 30, 2000, was understated by \$9,301,516.

**Cause:** PERA did not fill the plan accountant position until April 2000, at which time the accountant began the process of reconciling contractor reports to the state's accounting records and other supporting records. Reconciliations were not substantially complete until January 2001. PERA personnel indicated the quarterly reports received from the record keeping company were difficult to understand.

**Recommendation:** We recommend PERB establish procedures to ensure Section 457 Deferred Compensation Plan financial activity is completely and accurately recorded on the state's accounting records.

**State of Montana**  
**Schedule of Findings and Questioned Costs**  
**For the Two Fiscal Years Ended June 30, 2001**

**Section II – Financial Statement Findings**

**Finding #1-4**

**Criteria:** The Montana State Constitution and Title 17, MCA, address legal requirements related to fiscal control and accountability. Montana state law section 17-1-102, MCA, requires each agency to record the transactions necessary to ensure its accounting records present the receipt, use, and disposition of all money and property for which it is accountable in accordance with generally accepted accounting principles by the close of each fiscal year.

**Condition:** We identified several issues related to the Department of Environmental Quality's fiscal control and accountability. There were issues related to vendor payments, accounts receivable, cash collection controls, fixed asset inventory control, monitoring security and performance bonds, using federal funds for allowable purposes, submitting federal cash transaction reports, public water supply system fees, and annual asbestos facility permit fees. Misstatements within the state's accounting system and noncompliance with state and federal laws, policies, and regulations occurred.

**Questioned Costs:** No questioned costs were identified.

**Context:** The department reported expenditures of \$71 million in fiscal year 1999-00, and \$69 million in fiscal year 2000-01.

**Effect:** The fiscal issues point to the necessity for department management to design and implement an efficient and effective financial management control structure. This structure should provide assurance transactions process properly and in a timely manner. Until the department implements an efficient and effective financial management control structure, it has a high risk of making inappropriate financial decisions and disseminating inaccurate financial information.

**Cause:** The department experienced turnover in administrator, payroll, and cash receipting positions and had vacancies during our audit period. In addition, the state converted to a new statewide accounting, budgeting, and human resource system, which contributed to the errors.

**Recommendation:** We recommend the Department of Environmental Quality:

- A. Implement a financial management control structure to assure financial accountability and compliance with state and federal laws and regulations.
- B. Comply with constitutional and statutory requirements by disbursing funds only under appropriations made by law.

**State of Montana**  
**Schedule of Findings and Questioned Costs**  
**For the Two Fiscal Years Ended June 30, 2001**

**Section II – Financial Statement Findings**

**Finding # 1-5**

**Criteria:** State policy requires each state agency to establish and maintain a system of internal controls over collections and deposits. No one person should perform functions that place the person in a position to perpetrate and conceal errors or irregularities in the normal course of their duties.

**Condition:** The Department of Environmental Quality (department) receives checks and currency as payment for environmental impact statement studies, licenses and permits, and fines. After the mail is opened, one employee is responsible for custody of the collections, updating accounts receivable on the database, preparing the required accounting system transactions and the treasury deposit ticket, and making the deposit.

**Questioned Costs:** No questioned costs were identified.

**Context:** The department collected checks and currency of approximately \$6.8, \$7.1, and \$7.3 million in fiscal years 1998-99, 1999-00, and 2000-01, respectively.

**Effect:** Without adequate segregation of duties, the department cannot ensure all moneys received are deposited in the state treasury.

**Cause:** The department did not finalize and implement draft policies and procedures to change its cash collection process.

**Recommendation:** We recommend the department establish accounting control over moneys received, as required by state policy.

State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001

**Section II – Financial Statement Findings**

**Finding #1-6** Various Federal Agencies  
CFDA # Various

**Criteria:** State law, Section 17-1-102(4), MCA requires that before the accounts are closed at fiscal year-end, agencies shall input all transactions to present the receipt, use, and disposition of all money and property in accordance with generally accepted accounting principles. State law, Section 17-1-111, MCA, also provides the general fiscal duties of the state treasurer include receiving and accounting for all money belonging to the state and keeping an account of all money received and disbursed.

**Condition:** The Department of Administration (department) is responsible for reconciling activity within all bank accounts for the State of Montana. Since the implementation of Statewide Accounting, Budgeting, and Human Resource System (SABHRS) beginning in fiscal year 2000, the department has been unable to reconcile its bank account activity to the accounting records.

**Questioned Costs:** No questioned costs identified.

**Context:** The State's General Purpose Financial Statements reported approximately \$156 million and \$164 million in cash deposits at June 30, 2000 and June 30, 2001, respectively. In March 2001, the department made adjustments exceeding \$20 million to the financial statements. As of January 2002, the department recorded a final adjustment of approximately \$755,000 in the General Fund.

**Effect:** The ability to promptly reconcile bank records to the accounting records is a key control which management needs to ensure the accounting records accurately reflect the cash balances. The unreconciled difference between the accounting records and the bank records on October 10, 2001 was \$323,229.

**Cause:** The conversion to SABHRS created unforeseen problems which caused delays in agencies processing their accounting information. In addition, the department has not implemented procedures to facilitate timely reconciliation between bank records and accounting records.

**Recommendation:** We recommend the department implement procedures to promptly reconcile cash balances on the accounting records to the bank records as required by state law.

**State of Montana**  
**Schedule of Findings and Questioned Costs**  
**For the Two Fiscal Years Ended June 30, 2001**

**Section III – Federal Award Findings and Questioned Costs**

**Finding #2-1** U.S. Department of Agriculture (USDA)  
CFDA #10.557 Special Supplemental Nutrition Program for Women, Infants, and  
Children (WIC)

**Criteria:** USDA Food Nutrition Service (FNS) has identified, as indication of potential non-compliance with WIC program requirements, vouchers being redeemed which the issuing local agencies had reported as voided or unclaimed.

**Condition:** Participants in the WIC program are issued vouchers which are redeemable for specific food items at participating stores. Issuance and redemption of WIC vouchers are tracked on the WIC computer system which networks the state and local WIC agencies. The WIC computer system generates an edit report that includes information regarding vouchers that have been redeemed prior to an attempt to void the voucher. WIC vouchers are to be voided only when the coupon is in the hands of the local agency or when a police report documenting stolen vouchers is obtained to justify the void. In some circumstances a voucher has already been redeemed at the time a void is attempted. The Department of Public Health and Human Services (department) could not demonstrate they performed follow-up procedures on vouchers identified on the edit report as having been redeemed prior to an attempt to void them.

**Questioned Costs:** No questioned costs were identified.

**Context:** The department had WIC expenditures of \$12 million and \$13 million in fiscal year 1999-00 and fiscal year 2000-01, respectively.

**Effect:** The department does not have internal control procedures to follow up on edits to ensure compliance with federal regulations.

**Cause:** Personnel indicated edit reports were not being reviewed for a portion of the audit period due to a vacancy in the position responsible for the reviews. However, the department was not able to provide any documentation of review for the period the position was filled.

**Recommendation:** We recommend the department establish procedures to ensure completion and documentation of reviews of WIC edit reports which identify potential improper use of vouchers.

**Corrective Action Plan**

**Summary Schedule of Prior  
Audit Findings**

**State of Montana**  
**Schedule of Findings and Questioned Costs**  
**For the Two Fiscal Years Ended June 30, 2001**

**Section III – Federal Award Findings and Questioned Costs**

<b>Finding #2-2</b>	U.S. Department of Agriculture
	CFDA #10.557 Special Supplemental Nutrition Program for Women, Infants and Children (WIC)
	CFDA #10.555 National School Lunch Program
	U.S. Department of Education
	CFDA #84.126 Rehabilitation Services-Vocational Rehabilitation Grants to States
	U.S. Department of Health and Human Services
	CFDA #93.468 Low Income Home Energy Assistance
	CFDA #93.558 Temporary Assistance for Needy Families Program
	CFDA #93.596 Child Care Mandatory and Matching Funds of the Child Care and Development
	CFDA #93.658 Foster Care - Title IV-E
	CFDA #93.667 Social Services Block Grant
	CFDA #93.778 Medicaid Assistance Program

**Criteria:** The Cash Management Improvement Act (CMIA) agreement between Montana and the U.S. Treasury Department requires the state to calculate interest owed to the federal government as a result of not following the specifications outlined in the agreement.

**Condition:** The Department of Public Health and Human Services (department) personnel did not calculate the beginning cash balances consistently among the different programs. The total disbursements reported on the spreadsheets did not agree to the total expenditures recorded on the accounting system. The ending cash balances calculated through the spreadsheets did not agree to the balances in the cash accounting at June 30, 2000, and the difference could not be attributed to non-federal sources of cash. In addition to systematic inconsistencies involving beginning cash balances and recorded expenditures, we found a keying error for a Medicaid draw. The interest calculation spreadsheet for Medicaid reported a cash draw of \$12,805,120 when the actual cash draw was \$12,925. The error occurred when the employee who prepared the spreadsheet, intending to enter a formula,  $\$12,805 + \$120$ , did not enter the + sign.

**Questioned Costs:** No questioned costs were identified.

**Context:** We reviewed the interest calculation spreadsheets for eight of the department's nine major federal programs covered by the CMIA agreement in fiscal year 1999-00.

**Effect:** Misstating balances, cash disbursement, or collection activity could result in erroneous CMIA interest calculations.

**Cause:** Due to a lack of internal controls, errors were made on the spreadsheets and not detected.

**Recommendation:** We recommend the department implement controls to ensure the cash management interest obligation calculation spreadsheets submitted to the Department of Administration reconcile with the accounting records and are accurate.

**State of Montana**  
**Schedule of Findings and Questioned Costs**  
**For the Two Fiscal Years Ended June 30, 2001**

**Schedule III – Federal Award Findings and Questioned Costs**

<b>Finding #2-3</b>	U.S. Department of Agriculture
	CFDA #10.551 & 10.561 Food Stamp Cluster
	CFDA #10.557 Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
	CFDA #10.555 National School Lunch Program
	U.S. Department of Education
	CFDA #84.126 Rehabilitation Services - Vocational Rehabilitation Grants to States
	U.S. Department of Health and Human Services
	CFDA #93.468 Low Income Home Energy Assistance
	CFDA #93.558 Temporary Assistance for Needy Families Program
	CFDA #93.596 Child Care Mandatory and Matching Funds of the Child Care and Development
	CFDA #93.658 Foster Care - Title IV-E
	CFDA #93.667 Social Services Block Grant
	CFDA #93.778 Medicaid Assistance Program
	CFDA #93.959 Block Grants for Prevention & Treatment of Substance Abuse (SAPT)

**Criteria:** Under the terms of the Cash Management Improvement Act (CMIA) agreement (section 7.9), the Montana Department of Public Health and Human Services (department) must draw funds for each program based on a warrant clearance pattern established by the Montana Department of Administration. OMB Circular A-102, Paragraph 2a states "Agency methods and procedures for transferring funds shall minimize the time elapsing between transfer to recipients of grants and cooperative agreements and the recipient's need for the funds."

**Condition:** For the major federal programs covered by the CMIA agreement, we observed instances where the department's fiscal personnel drew cash earlier than the clearance pattern established in the agreement and significantly more instances where they drew cash later than the clearance pattern established in the agreement. We also noted cash draws which were consistently calculated in a manner contrary to that in the CMIA agreement and expenditures which were not considered in the cash draw calculations for any program. The following paragraphs summarize the cash management problems we found.

- The Social Services Block Grant made 172 draws. Of these, only 17 were made in accordance with the CMIA agreement. The remaining 155 cash draws were late by as much as 14 days.
- We reviewed the department's spreadsheet of daily cash receipts and disbursements during fiscal year 1999-00 for administrative costs of the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). We identified a seven-month period where no cash draws were made. The department should have made 25 draws under the CMIA clearance



pattern in effect during that period. When the department made a draw to cover administrative costs of the WIC program, it was for \$2,099,520.

- Medicaid matching rates vary based on the date the service was provided. Department personnel calculate Medicaid draws based on service center reports of total warrant and electronic funds transfer amounts, which they multiply times the current matching rate to estimate the federal share. Once a month, the service center provides the actual matching amounts based on the dates of the services paid. Department personnel reconcile the estimated amounts based on the current rate to the actual amount based on service data. The reconciliation for June 2001 resulted in an accounting adjustment that increased the federal share and reduced the state share of match by \$899,143. The CMIA agreement requires the draws to be based on actual, not estimated disbursements.
- Cash draws for TANF benefits and administrative costs were made based on estimated disbursements. The CMIA agreement required draws be based on actual disbursements. In one instance, department personnel drew \$1,785,564 instead of actual benefit expenditures of \$1,808,073 one day late.
- Department personnel calculate cash draws based on their calculations on cash disbursement transactions, without considering transactions that should offset these draws, such as a correction of matching rates or a return of benefit payments for which an individual was found to be ineligible after payment was disbursed. Because cash was drawn for these disbursements, then returned, the return funds should be used to reduce the next draw.

For the major federal programs not covered by the CMIA agreement (Food Stamps and the Block Grant for the Prevention and Treatment of Substance Abuse), we observed no routine draw pattern and they consistently had negative cash balances during the audit period. We also found the department's fiscal personnel did not consider the cash balance created through inter-entity loans in calculating the amount of cash to draw for these programs. The existence of the inter-entity loans for these programs often made the cash balance for the programs positive when the balance of federal cash was negative. In other situations, the existence of inter-entity loans did not prevent negative cash balances from occurring.

**Questioned Costs:** No questioned costs were identified.

**Context:** The department's expenditures exceeded \$888 million in fiscal year 1999-00 and \$974 million in fiscal year 2000-01, or an average of over \$3.4 million and \$3.7 million, respectively, per working day. The federal government funded 69 percent of these expenditures. In fiscal year 2000-01, the department recorded over \$631 million in federal revenue, a major component of the state's revenue.

**Effect:** The department is not in compliance with CMIA agreement requirements or OMB Circular A-133, cash management requirements. In a state agency this size, it is important to manage cash flow to ensure cash is available to pay warrants and to maximize investment earnings to the various financing sources.

**Cause:** The department's controls during the audit period were not adequate to ensure compliance with the federal cash management requirements and ensure timely recording of financial activity used as a basis for cash draws.

**Recommendation:** We recommend the department:

- A. Implement effective controls to ensure compliance with federal cash management requirements.
- B. Draw federal funds in accordance with federal regulations.

**State of Montana**  
**Schedule of Findings and Questioned Costs**  
**For the Two Fiscal Years Ended June 30, 2001**

**Section III – Federal Award Findings and Questioned Costs**

**Finding #2-4** U.S. Department of Defense  
CFDA #12.404 National Guard Civilian Youth Opportunities

**Criteria:** OMB Circular A-87 Attachment A Part C, Section 1(c), requires state entities receiving federal assistance to follow state purchasing policies and procedures. Montana State Purchasing Card Procedures limit purchases to \$5,000 and prohibit splitting purchases to circumvent the limit.

**Condition:** During June 2000 a National Guard Youth Challenge Program staff member purchased \$13,489 of textbooks and \$6,735 of furniture by splitting the textbook purchase into three separate purchase transactions and split the furniture purchase into two purchases to avoid the purchasing card limit of \$5,000. Three purchase card transactions for lodging expenditures exceeded the cardholder's purchase limit of \$5,000.

**Questioned Costs:** We question \$14,157 and \$13,094 in fiscal years 1999-00 and 2000-01, respectively.

**Context:** We reviewed the Youth Challenge Program Purchasing Card purchases during June 2000, looking for multiple purchases from the same vendor during a short time period specifically looking for indications of split purchases. The two purchases noted above were the only split purchases found in fiscal year 1999-00. We reviewed purchase card activity for the first seven months of fiscal year 2000-01 and found three exceptions.

**Effect:** The department is not in compliance with state purchasing card procedures.

**Cause:** National Guard Youth Challenge staff said they were not properly trained in purchasing procedures and a lump sum charge is more efficient than individual charges.

**Recommendation:** We recommend the department develop oversight procedures to ensure compliance with state purchasing policies for credit card purchases.

State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001

**Section III – Federal Award Findings and Questioned Costs**

**Finding #2-5** U.S. Department of Housing and Urban Development (HOME)  
CFDA #14.239 Home Investment Partnerships Program  
CFDA #14.871 Section 8 Housing Choice Vouchers  
CFDA #14.855 and #14.857 Section 8 Housing Choice Vouchers

**Criteria:** OMB Circular A-87 establishes principles for determining allowable costs incurred by state governments under grants, cost reimbursement contracts and other agreements with the federal government. These principles are used by all federal agencies in determining the reasonableness of costs charged by governmental units to federal programs.

**Condition:** The HOME and Section 8 programs do not have adequate controls in place to determine that administrative expenditures at the Montana Department of Commerce (department) were allowable costs based on the circular.

**Questioned Costs:** No questioned costs were identified.

**Context:** The Montana HOME Investment Partnership Program had federal expenditures of approximately \$4.3 million and \$3.7 million in fiscal years 1999-00 and 2000-01, respectively. The Section 8 Housing Choice Vouchers had federal expenditures of approximately \$11.4 million and \$11.9 million in fiscal years 1999-00 and 2000-01, respectively.

**Effect:** Without adequate internal controls the possibility exists that the department could pay administrative costs within the Section 8 and HOME programs that are not allowable. No examples of administrative expenditures that were not in compliance with the circular were found.

**Cause:** One of the program managers was not aware of the circular or aware the department had to follow it. The other program manager was aware of the circular; however, did not believe it applied to the program, because they had a contract with the federal government for the program.

**Recommendation:** We recommend the department establish controls to ensure only costs allowable under federal regulations are charged to the HOME and Section 8 programs.

**State of Montana**  
**Schedule of Findings and Questioned Costs**  
**For the Two Fiscal Years Ended June 30, 2001**

**Section III – Federal Award Findings and Questioned Costs**

**Finding #2-6** U.S. Department of Housing and Urban Development  
CFDA #14.239 Home Investment Partnerships (HOME) Program

**Criteria:** 24 CFR 92.503 states that program income must be used in accordance with the same requirements as original HOME expenditures.

**Condition:** At the Department of Commerce (department) the Montana Home Investment Partnership Program subgrants money to local governments and to Community Housing Development Organization recipients to expand the supply of decent and affordable housing, particularly for low and very-low income Americans. The HOME program does not have adequate controls in place to determine if the state recipients are spending their program income in accordance with federal requirements.

**Questioned Costs:** No questioned costs were identified.

**Context:** The Montana HOME Investment Partnership Program (HOME) had federal expenditures of approximately \$4.3 million and \$3.7 million in fiscal years 1999-00 and 2000-01, respectively.

**Effect:** Without adequate controls, the possibility exists that program income could be spent on unallowable activities and not be identified by the HOME program.

**Cause:** The Home program manager was unsure why this control was not in place.

**Recommendation:** We recommend the department establish controls to ensure HOME program subrecipients are in compliance with federal regulations related to program income.

State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001

**Section III – Federal Award Findings and Questioned Costs**

**Finding #2-7** U.S. Department of the Interior  
CFDA #15.904 Historic Preservation Fund Grants-In-Aid

**Criteria:** OMB Circular A-133 requires recipients to establish controls to ensure costs charged to federal awards are allowable. OMB Circular A-87 provides the criteria to use in determining allowability.

**Condition:** The Heritage Commission is attached to the Montana Historical Society for administrative purposes. The Commission received a federal award for historic preservation activities. We identified \$727 of charges to the federal award that we believe were not necessary and reasonable for the proper and efficient performance and administration of the federal award. In addition, the equipment and vehicles purchased by the federal award are used approximately 10 percent on state restoration projects. The Heritage Commission has not established controls to allocate these charges among the projects according to the relative benefit received. We questioned \$13,409 of these charges to the federal award.

**Questioned Costs:** We question \$14,136 charged to the Historic Preservation Fund Grants in Aid in fiscal year 1999-00.

**Context:** During fiscal year 1999-00 the Heritage Commission charged \$135,218 to the federal award for equipment, construction materials, supplies, and services related to the equipment purchases, including vehicle repair. The Montana Historical Society had \$635,447 of expenditures recorded for the Historic Preservation Fund Grants in Aid federal program.

**Effect:** The Heritage Commission is not in compliance with federal regulations relating to allowable costs.

**Cause:** Heritage Commission personnel relied on a contracted employee to determine allowability of federal expenditures.

**Recommendation:** We recommend the Heritage Commission establish controls to ensure costs charged to federal awards are allowable.

**State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001**

**Section III – Federal Award Findings and Questioned Costs**

**Finding # 2-8** U.S. Environmental Protection Agency  
CFDA #66.458 Capitalization Grants for State Revolving Funds  
CFDA #66.468 Capitalization Grants for Drinking Water State Revolving Fund

**Criteria:** 40 CFR 31 and 43 CFR 12 require grantees to file SF-272 reports for certain federal assistance programs.

**Condition:** The Department of Environmental Quality (department) does not submit Federal Cash Transactions Reports for any of its federal programs as required by federal regulations.

**Questioned Costs:** No questioned costs were identified.

**Context:** The department reported \$30,701,778 and \$27,315,901 of federal expenditures during fiscal years 1999-00 and 2000-01, respectively.

**Effect:** Noncompliance with federal reporting requirements.

**Cause:** Department personnel indicated they have not been asked by federal program personnel to submit the reports and therefore, the reports have become a low priority.

**Recommendation:** We recommend the department file Federal Cash Transactions Reports as required by federal regulations.

State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001

**Section III - Federal Award Findings and Questioned Costs**

**Finding # 2-9** U.S. Department of Interior  
CFDA #15.252 Abandoned Mine Land Reclamation Program (AMLR)

**Criteria:** OMB Circular A-87 Attachment A, Section C Part 1a, indicates the transaction must be necessary and reasonable for proper and efficient performance and administration of federal awards.

**Condition:** The Department of Environmental Quality inappropriately used AMLR program money to pay for \$288,040 of mine site reclamation expenditures that were ineligible to the grant by recording transactions improperly on the state's accounting system. These expenditures were the responsibility of the state.

**Questioned Costs:** No questioned costs were identified.

**Context:** The department expended \$3,116,337 of Abandoned Mine Land Reclamation moneys in fiscal year 1998-99.

**Effect:** In fiscal year 1998-99 the department temporarily recorded \$288,040 of unallowable costs to the AMLR program until the alternative source could pay for the costs.

**Cause:** The department charged the costs to the AMLR program because it did not have the cash available to pay for a mine site reclamation.

**Recommendation:** We recommend the department use federal funds only for allowable purposes as required by federal regulations.



**State of Montana**  
**Schedule of Findings and Questioned Costs**  
**For the Two Fiscal Years Ended June 30, 2001**

**Section III - Federal Award Findings and Questioned Costs**

**Finding #2-10** U.S. Department of the Interior

CFDA #15.605 Sport Fish Restoration - Fish and Wildlife Cluster

CFDA #15.611 Wildlife Restoration - Fish and Wildlife Cluster

**Criteria:** The Cash Management Improvement Act (CMIA) agreement between the U.S. Department of the Treasury and the state of Montana requires the Department of Fish, Wildlife, and Parks to draw Sport Fish Restoration and Wildlife Restoration Program funds based on a six-day warrant clearance pattern.

**Condition:** In our review of cash draws for fiscal years 1999-00 and through September, 2000 we noted the Department of Fish, Wildlife and Parks (department) was drawing cash using a four-day warrant clearance pattern rather than six days as set forth in the CMIA agreement. In addition, the department analyzes cash balances based on when payroll expenditures are recorded on the state's accounting system rather than on payday. Because of average delays of 5.7 days in posting the payroll expenditures to the accounting system, there were delays in drawing the federal cash.

**Questioned Costs:** No questioned costs were identified.

**Context:** The Sport Fish Restoration expenditures were \$7,828,009 in fiscal year 1999-00. The Wildlife Restoration expenditures were \$5,964,599 during the same period.

**Effect:** For fiscal year 1999-00 and through September, 2000 the department was not drawing federal funds according to established clearance patterns and lost interest when delaying the draw of funds for federal payroll expenditures.

**Cause:** Department personnel were unaware the warrant clearance pattern had changed from four days to six days. Payroll processing delays occurred due to the implementation of the state's new accounting system and internal coding problems.

**Recommendation:** We recommend the department draw Sport Fish and Wildlife Restoration federal funds in accordance with the Cash Management Improvement Act and draw funds for federal payroll obligations on paydays.

State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001

**Section III – Federal Award Findings and Questioned Costs**

**Finding #2-11** U.S. Department of the Interior  
CFDA #15.904 Historic Preservation Fund Grants-In-Aid

**Criteria:** 43 CFR 12.60 (b) (7) and the grant agreement require the recipient to follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement. 43 CFR 12.61 (I) also requires recipients to remit any interest earned on advances in excess of \$100 to the federal grantor agency.

**Condition:** The Heritage Commission is attached to the Montana Historical Society for administrative purposes. The Commission received a \$1 million historic preservation grant in October 1999. As of June 2000 only \$173,782 of expenditures were incurred under the award. We estimate the state's General Fund received interest earnings of \$35,799 on the advanced federal award.

**Questioned Costs:** We question the \$35,799 of estimated interest earned on the Historic Preservation Fund Grants in Aid advance in fiscal year 1999-00.

**Context:** During fiscal year 1999-00 the Heritage Commission incurred \$173,782 of expenditures for the restoration of Virginia City. The Montana Historical Society reported \$635,447 of expenditures for the Historic Preservation Fund Grants in Aid federal program in fiscal year 1999-00.

**Effect:** The Heritage Commission is not in compliance with federal regulations relating to cash management.

**Cause:** Heritage Commission personnel were unaware that federal regulations prohibit the state from retaining interest earned on advances for this award.

**Recommendation:** We recommend the Heritage Commission comply with the cash management provisions of federal regulations and the grant agreement.

State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001

**Section III – Federal Award Findings and Questioned Costs**

- Finding #2-12** U.S. Department of Labor
- CFDA #17.002 Labor Force Statistics
  - CFDA #17.005 Compensation and Working Conditions
  - CFDA #17.203 Labor Certification for Alien Workers
  - CFDA #17.207 Employment Service
  - CFDA #17.225 Unemployment Insurance
  - CFDA #17.245 Trade Adjustment Assistance - Workers
  - CFDA #17.246 Employment and Training Assistance - Dislocated Workers
  - CFDA #17.248 Employment and Training Research & Development Projects
  - CFDA #17.249 Employment Services and Job Training - Pilot & Demonstration Programs
  - CFDA #17.250 Job Training Partnership Act
  - CFDA #17.253 Welfare-to-Work Grants to States and Localities
  - CFDA #17.257 One-Stop Career Center Initiative
  - CFDA #17.600 Mine Health and Safety Grants
  - CFDA #17.801 Disabled Veterans' Outreach Program (DVOP)
  - CFDA #17.804 Local Veterans' Employment Representative Program
  - CFDA #17.999 National Occupational Information Coordinating Committee Equal Employment Opportunity Commission
  - CFDA #30.002 Employment Discrimination - State and Local Fair Employment Practices Agency Contracts
- U.S. Department of Education
- CFDA #84.186 Safe and Drug-Free Schools and Communities - State Grants
  - CFDA #93.561 Job Opportunities and Basic Skills Training (JOBS)
  - CFDA #94.003 State Commissions
  - CFDA #94.004 Learn and Serve America - School and Community Based Programs
  - CFDA #94.006 AmeriCorps
  - CFDA #94.009 Training and Technical Assistance

**Criteria:** OMB Circular A-87, Attachment C, states that federal programs are expected to bear their fair share of allowable costs and that working capital reserves for internal service funds should be at a reasonable level, defined for the Montana Department of Labor (department) to be an amount of cash sufficient to cover a maximum of 60 days of operating expenses.

**Condition:** The department's Central Services Division is funded by charging other department programs for services at a rate intended to allow the division to break even while retaining a cash reserve. The department maintained reserves in excess of the amount allowed during fiscal year 1999-00.

**Questioned Costs:** We question \$202,185 of expenses charged to federal programs, which is 52 percent of the excess reserves at June 30, 2000.

**Context:** At June 30, 1999 the department's cash reserve exceeded the 60-day limit by \$381,551 or 84 days. At June 30, 2000 the department's cash reserve exceeded the 60-day limit by \$388,817 or 90 days. Federal programs contributed approximately 52 percent of the funds in the Internal Service Fund.

**Effect:** Federal programs contributed funds in excess of the actual cost of services provided.

**Cause:** A department manager said the excess funds accumulated because vacant positions reduced division personal services expenses below the level anticipated in the Internal Service Fund rate, federal program revenue increased, and the department applied a conservative approach to reducing the excess from prior years.

**Recommendation:** We recommend the department reduce the fund balance in its Internal Service Fund to the allowable 60-day balance.

State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001

**Section III – Federal Award Findings and Questioned Costs**

**Finding #2-13** U.S. Department of Labor  
CFDA #17.225 Unemployment Insurance

**Criteria:** The Federal-State Unemployment Insurance (UI) program regulations are found in 20 CFR Parts 601 through 616. Program regulations require the Montana Department of Labor to file various reports, one of which is the ETA 581, *Contributions Operations (OMB No. 1205-0178)* – Quarterly report.

**Condition:** The department did not submit, or cause to be submitted, the ETA 581 reports for the quarters ended March 31, 2000, June 30, 2000, and September 30, 2000 until November of 2001, December of 2001, and February of 2002, respectively. In addition, the three quarterly reports due for fiscal year 2000-01 have not been submitted as of February 2002.

**Questioned Costs:** No questioned costs were identified.

**Context:** Of the four ETA 581 reports required for fiscal year 1999-00, only two were submitted. The U.S. Department of Labor has placed the state on a continuous improvement plan to correct the reporting deficiency.

**Effect:** The department did not provide the federal government with required work volume, performance in determining the taxable status of employers, and other program effectiveness data.

**Cause:** The department entered into a cooperative agreement with the Montana Department of Revenue for assistance in administering the UI program. This agreement requires DOR to provide the Department of Labor and Industry with the necessary information for the report. The DOR was unable to obtain the necessary data from its new computer system for the recent quarters.

**Recommendation:** We recommend the department work with the Department of Revenue to prepare ETA 581 reports as required by federal regulations.

State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001

Section III – Federal Award Findings and Questioned Costs

**Finding #2-14** U.S. Department of Labor  
CFDA #17.207 Employment Service

**Criteria:** OMB Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments, Sections 25 and 31c. Proceeds from the sale of real property should be applied to acquiring replacement property for the same program or remitted to the awarding agency in the appropriate cost-sharing ratio.

**Condition:** In January 2000, the Montana Department of Labor (department) sold real estate that had been used as a local job service office. The department recorded deferred revenue of \$81,001 for the Employment Service grant and revenue of \$30,817 for the Unemployment Insurance administrative grant.

**Questioned Costs:** We question \$81,001 of costs charged to the Employment Service program.

**Context:** The department expended over \$5.5 million in the Employment Service program during fiscal year 1999-00. This was the only sale of real estate during the fiscal year.

**Effect:** The department did not use the proceeds from the sale for either of the purposes approved by the U.S. Department of Labor, which were to build the replacement facilities or pay the debt on its construction.

**Cause:** A department accountant said the department used bond proceeds to build additions or buy new property in three towns, including the one in which the facility was sold.

**Recommendation:** We recommend the department dispose of the proceeds of real estate sales in accordance with federal regulations.

**State of Montana**  
**Schedule of Findings and Questioned Costs**  
**For the Two Fiscal Years Ended June 30, 2001**

**Section III – Federal Award Findings and Questioned Costs**

**Finding #2-15** U.S. Department of Labor  
CFDA #17.225 Unemployment Insurance

**Criteria:** The Federal-State Unemployment Insurance (UI) program partnership is provided for by Titles III, IX and XII of the Social Security Act of 1935 and the Federal Unemployment Tax Act. The structure of the Federal-State UI program partnership is implemented primarily through state law, specifically Title 39, Chapter 51, MCA. Section 39-51-402, MCA, requires three separate accounts be maintained within the Unemployment Insurance fund: a clearing account; an Unemployment Trust Fund account; and a benefit account. In addition, section 17-2-110, MCA, requires the Department of Labor and Industry (department) to prepare financial records and reconciliations to accurately and comprehensively present its financial activities on the state's primary accounting records.

**Condition:** UI cash amounts on deposit in the "clearing account," the "benefits account," and the account at the U.S. Treasury do not balance between the bank statements and the state's accounting records at June 30, 1999 and June 30, 2000.

**Questioned Costs:** No questioned costs were identified.

**Context:** The UI program expenditures for fiscal year 1999-00 totaled approximately \$67.4 million. Fiscal year 1998-99 expenditures totaled approximately \$64.9 million.

**Effect:** UI Trust Fund cash balances were understated by approximately \$6.1 million and \$7.4 million at June 30, 1999 and 2000, respectively, on the state's accounting records.

**Cause:** A department official said the understated cash balance probably resulted from errors over the years. The department reconciles movements of cash (1) from the clearing account to the federal Unemployment Trust Fund and (2) from the Trust Fund to the benefits account, to the federal Trust Fund records monthly. However, the department's reconciliation procedures do not include reconciling the trust fund accounts to the state's accounting records.

**Recommendation:** We recommend the department include all Unemployment Insurance cash accounts in the reconciliation procedure and record reconciling entries on a monthly basis.

State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001

**Section III – Federal Award Findings and Questioned Costs**

**Finding #2-16** U.S. Department of Labor  
CFDA #17.225 Unemployment Insurance (UI)

**Criteria:** Per state law, MCA 17-7-302(1) "Any valid obligation not paid within the fiscal year, including valid written interagency or intra-agency service agreements for systems development, shall be encumbered for payment thereof at the end of each fiscal year in the Department of Administration's accounts."

**Condition:** The Department of Revenue (department) only billed Department of Labor and Industry (DOLI) for UI service four times during fiscal year 1999-00. However, services provided for UI throughout the year were charged to the General Fund appropriation. The department accrued \$1,115,131 for services provided to DOLI from December 1999 to June 2000 in the Federal Special Revenue Fund. However, \$548,688 of the accrual was not valid because either the work was not completed by June 30, 2000, or was not supported by billings to DOLI. Since the service was not in a complete enough matter to be billed by June 30, 2000, it should not have been accrued on the accounting records as a service that was completed by June 30, 2000. During fiscal year 2000-01, the department billed for all but \$188,320 of the accrual of \$1,115,131 of which we questioned the allowability of \$548,688. The accrual and expenditures of \$188,320 were abated from the Federal Special Revenue Fund in January 2001. No accrual was necessary in fiscal year 2000-01.

**Questioned Costs:** While reviewing the transactions we found that \$548,688 of an expenditure accrual charged to a federal program was not in compliance with state policy. As a result, we question the allowability of the charge to the federal program.

**Context:** The department billed the General Fund a total of \$1,801,407 for UI expenditures in fiscal year 1999-00.

**Effect:** The department is not in compliance with state law.

**Cause:** Department personnel stated they could not bill DOLI for the \$548,688 because they were unable to enter necessary information on a computer system as required by federal regulations and some of the accrual was based on estimates.

**Recommendation:** We recommend the department comply with state policy related to expenditure accruals.



**State of Montana**  
**Schedule of Findings and Questioned Costs**  
**For the Two Fiscal Years Ended June 30, 2001**

**Section III - Federal Award Findings and Questioned Costs**

**Finding #2-17** U.S. Department of Labor  
CFDA #17.225 Unemployment Insurance (UI)

**Criteria:** Section 3304(a)(3) of the Federal Unemployment Tax Act (FUTA) requires as a condition of employers in a state receiving credit against the federal unemployment tax, that all money received in the unemployment fund shall immediately upon such receipt be paid over to the U.S. Secretary of the Treasury to the credit of the Unemployment Trust Fund established by Section 904 of the Social Security Act.

**Condition:** From the time POINTS was implemented in December 1999 until February 7, 2000, UI receipts totaling \$842,953 were not transferred to the U.S. clearing account as required by federal regulations. The receipts were deposited in the state treasury. The Department of Revenue (department) negotiated with the federal Department of Labor and has paid approximately \$8,500 for interest earned by the General Fund that the receipts would have earned in the U.S. Treasury accounts. Another calculation and interest payment will have to be made for the time period between February 8, 2000, and the date the problem is corrected. The department implemented procedures in March 2001 which greatly improved the timeliness of UI deposits. We tested and found for the period from April through June of 2001 that the average number of days from receipt to deposit into the trust fund was 2.88 days. Despite the improvement the department is still not in compliance with federal UI deposit regulations that requires UI receipts to be deposited on the average within 2 days of receipt for fiscal year 2000-01.

**Questioned Costs:** No questioned costs were identified.

**Context:** UI deposits are approximately \$60 million and from the time the Process Oriented Integrated System (POINTS) was implemented in December 1999 until February 7, 2000, UI receipts totaling \$842,953 were not transferred to the U.S. clearing account. The receipts were deposited in the state treasury. The department negotiated with the federal Department of Labor and has paid approximately \$8,500 for interest earned by the General Fund that the receipts would have earned in the U.S. Treasury accounts.

**Effect:** Noncompliance with federal UI deposit regulations could jeopardize employers' use of the state tax as a credit against the federal tax and result in the loss of administration grant funds used to administer the UI program.

**Cause:** Department personnel stated that POINTS does not have the information necessary to immediately deposit the funds in the correct accounts that are required for UI.

**Recommendation:** We recommend the department comply with federal law related to the immediate deposit of UI receipts in the U.S. Treasury clearing account.

**State of Montana**  
**Schedule of Findings and Questioned Costs**  
**For the Two Fiscal Years Ended June 30, 2001**

**Section III – Federal Award Findings and Questioned Costs**

**Finding #2-18** U.S. Department of Transportation  
CFDA #20.205 Highway Planning and Construction

**Criteria:** OMB Circular A-133, Section 400, establishes requirements for monitoring federal funds subgranted.

**Condition:** The Montana Department of Transportation (department) subgrants federal funds to other entities. Federal regulations require the department to review the results of audits of subrecipients as necessary to determine whether corrective action has been taken with respect to audit findings. Our prior audit of the department noted concerns related to the department's monitoring of federal funds provided to subrecipients. The department represented to the Office of Audit Resolution and Cost Policy at the federal Department of Health and Human Services that procedures have been implemented to obtain and review audit reports and include standardized contract language to address monitoring requirements. The department could not provide documentation to support its contention that procedures or standardized compliance contract language had been implemented.

**Questioned Costs:** No questioned costs were identified.

**Context:** The department subgranted \$5,724,539 in fiscal year 1999-00 and \$6,313,039 in fiscal year 2000-01 to non-state entities.

**Effect:** The department is not in compliance with all subrecipient monitoring requirements of OMB Circular A-133.

**Cause:** The department could not provide documentation to support the development and implementation of procedures to monitor subrecipients in accordance with federal regulations.

**Recommendation:** We recommend the department establish and implement procedures to ensure all federal funds subgranted are monitored in accordance with federal regulations.

**State of Montana**  
**Schedule of Findings and Questioned Costs**  
**For the Two Fiscal Years Ended June 30, 2001**

**Section III – Federal Award Findings and Questioned Costs**

**Finding #2-19** U.S. Environmental Protection Agency  
CFDA #66.458 Capitalization Grants for State Revolving Funds  
CFDA #66.468 Capitalization Grants for Drinking Water State Revolving Fund

**Criteria:** 40 CFR 31.35 prohibits awards or subawards to debarred and suspended parties.

**Condition:** The Department of Natural Resources (department) did not require loan applicants to certify that they are not suspended or debarred from participating in federal assistance programs before approving them for loans under the federal Clean Water or Drinking Water State Revolving Fund programs until January 2002. Federal regulations require the state to obtain the certification in writing from the entity that the organization and its principals are not suspended or debarred before using federal funds for grants, contracts, or loans.

**Questioned Costs:** No questioned costs identified.

**Context:** The department issued 14 and 11 new drinking water loans in fiscal years 1999-00 and 2000-01, respectively. They issued 13 and 17 new clean water loans in fiscal years 1999-00 and 2000-01, respectively.

**Effect:** Noncompliance with federal regulations concerning suspension and debarment set forth in 40 CFR 31.35 until January 2002

**Cause:** The department requires successful loan applicants sign an agreement that they agree to comply with all applicable federal regulations. Department personnel indicated they were unaware that a more specific certification is required for suspension and debarment.

**Recommendation:** We recommend the department require recipients of federal funds to certify that the organization and its principals, if any are not suspended or debarred as required by federal regulations

State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001

**Section III – Federal Award Findings and Questioned Costs**

**Finding #2-20** U.S. Environmental Protection Agency  
U.S. Department of the Interior  
U.S. Department of Energy  
CFDA # Various

**Criteria:** OMB Circular A-87, Attachment B, Section 11(d)(2), requires compensation for personal services to be equitably allocated to all related activities.

**Condition:** The Department of Environmental Quality (department) maintains leave pools with two different rates used to fund leave taken by certain employees who accumulate leave while working in state and federal programs. The two leave pools were moved to the department from two former state agencies when state programs were reorganized to form the department. Leave for the majority of department employees is not covered by either of the two leave pools. In our prior audit we recommended the department review its leave pool accounting procedures and ensure the procedures are uniformly and equitably applied.

**Questioned Costs:** We question leave pool charges amounting to \$116,731, \$38,797 and \$46,652 in fiscal year 1998-99, 1999-00, and 2000-01, respectively.

**Context:** The department reported \$30,701,778 and \$27,315,901 of federal expenditures in fiscal years 1999-00 and 2000-01, respectively.

**Effect:** For the leave pool costs to be allowed for federal programs, the costs must be uniformly applied to all related activities of the governmental unit. Since the leave pool rates are not consistently applied to all employee leave, the costs are unallowable under federal regulations.

**Cause:** The department concurred with our prior audit recommendation, but did not implement it. Department personnel stated they met with other state agency personnel regarding developing a unified approach that could be implemented statewide, but did not get the support necessary to do that.

**Recommendation:** We recommend the department charge its leave costs uniformly and equitably in accordance with federal regulations.

State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001

**Section III – Federal Award Findings and Questioned Costs**

**Finding #2-21** U.S. Department of Education  
CFDA #84.038 Federal Perkins Loan Program - Federal Capital Contributions

**Criteria:** 34 CFR 674.48 states “An institution that contracts for performance of any duties under this subpart remains responsible for compliance with the requirement of this subpart in performing these duties, including decisions regarding cancellation, postponement, or deferment or repayment, extension of the repayment period, other billing and collection matters, and the safeguarding of all funds collected by its employees and contractors.”

**Condition:** Montana State University-Bozeman (MSU-Bozeman) is responsible for the loan collection process and accounting for student loans. The university contracts with a third party to collect loan repayments from students and account for the proceeds. A private CPA firm prepares a report which documents whether the university’s Perkins loan collections are processed in accordance with federal regulations. University personnel receive this report, but they do not read or review it.

**Questioned Costs:** No questioned costs were identified.

**Context:** MSU-Bozeman processed \$14.4 million in Perkins student loans in fiscal year 2000-01.

**Effect:** Because federal regulations hold the university responsible for the loan collection process and accounting for student loans, even when these activities are contracted for through a third party, university personnel should read the report and take appropriate action if instances of non-compliance are reported.

**Cause:** The university contracts with a third party to collect loan repayments from students and account for the proceeds. University personnel only request the CPA firm prepared report for the internal auditors.

**Recommendation:** We recommend the university ensure appropriate personnel at MSU-Bozeman read the compliance report for its Perkins Loan Program and take appropriate action on any reported instances of non-compliance with federal regulations.

**State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001**

**Section III – Federal Award Findings and Questioned Costs**

**Finding #2-22** U.S. Department of Health and Human Services  
CFDA #93.775, #93.777, & #93.778 Medicaid Cluster

**Criteria:** Montana state law, section 2-15-114, MCA, states that each department is responsible for assuring an adequate level of security for all data and information technology resources within the department.

**Condition:** The Department of Public Health and Human Services (department) does not have a control procedure to ensure employees who terminate employment with the department have access to the Medicaid Management Information System (MMIS) eliminated at the time of termination.

**Questioned Costs:** No questioned costs were identified.

**Context:** MMIS processes Medicaid benefit payments in excess of \$400 million each year.

**Effect:** No employees who terminated from the department within the six-month period from February through July 2001 lost their access rights to MMIS. The rights include the authority to by-pass certain system edits to pay Medicaid claims.

**Cause:** The departments interim MMIS coordinator said he had not had time to review the MMIS access list for terminated employees.

**Recommendation:** We recommend the department implement a procedure to ensure that MMIS access granted to employees is cancelled when employment is terminated.

State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001

**Section III – Federal Award Findings and Questioned Costs**

**Finding #2-23** U.S. Department of Health and Human Services (HHS)  
CFDA #93.775, #93.777 & #93.778 Medical Cluster

**Criteria:** Per 42 CFR 433.316 requires the department to refund Medicaid overpayments to the Health Care Finance Administration (HCFA) within 60 days from the date of discovery regardless of whether the overpayment has been collected from the Medicaid provider. Regulations define the date of discovery as the earliest of the date a provider is notified in writing of an overpayment, the date a provider acknowledges an overpayment, or the date the state initiates action to recoup an overpayment. The refund must be made through a credit on the Medicaid Quarterly Statement of Expenditures report (HCFA-64).

**Condition:** The Department of Public Health and Human Services (department) identified an overpayment of claims to the Indian Health Service (IHS). The department sent a letter to IHS dated December 30, 1999 which included a specified overpayment amount. The related overpayment was included on the Medicaid report HCFA-64 for the quarter ended June 30, 2000. The overpayment should have been reported on the March 31, 2000 report.

**Questioned Costs:** No questioned costs were identified.

**Context:** The department distributed \$20,538,914 in Indian Health benefits in FY 1999-00.

**Effect:** Non-compliance with federal regulations 42 CFR 433.316. Repayment has occurred.

**Cause:** Per department personnel, adjustments are only reported on the HCFA-64 on the June 30<sup>th</sup> quarterly report due to preparation and processing simplicity.

**Recommendation:** We recommend the department establish procedures to ensure Medicaid overpayments are reported on the Medicaid expenditure report in accordance with federal regulations.

State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001

**Section III – Federal Award Findings and Questioned Costs**

**Finding #2-24** U.S. Department of Health and Human Services (HHS)  
CFDA #93.959 Block Grants for Prevention and Treatment of Substance Abuse (SAPT)

**Criteria:** OMB Circular A-102 permits working capital advances of federal funds to grantees. Under provisions of the circular, the awarding agency shall advance cash to the grantee to cover its estimated disbursement needs for an initial period, generally geared to the grantee's disbursement cycle. The circular requires the recipient of federal funds have procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees.

**Condition:** Federal regulations governing SAPT grants allow grantees to establish a revolving loan account to provide housing loans to recovering substance abusers. The Department of Public Health and Human Services (department) contracted with a service provider to administer a revolving loan program. The department disbursed \$20,000 to the contractor in July 2000 as an advance, which was used as a beginning balance in the account at a financial institution opened to handle loan transactions. Since the disbursement cycle for the loan program is not predictable, the contract provisions concerning the advance do not comply with federal cash management regulations.

**Questioned Costs:** Although reimbursement of loans is allowable, we question the advance payment.

**Context:** The department only had one advance loan payment during the audit period. The department spent \$4,890,430 in SAPT expenditure in fiscal year 2000-01.

**Effect:** The department is not in compliance with federal cash management regulations.

**Cause:** Department officials were not aware of compliance requirements in drawing federal funds to cover the loans.

**Recommendation:** We recommend the department seek revision of the contract related to the revolving housing loan account to achieve compliance with federal cash management regulations.



State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001

**Section III – Federal Award Findings and Questioned Costs**

**Finding #2-25** U.S. Department of Health and Human Services  
CFDA #84.126 Rehabilitation Services - Vocational Rehabilitation Grants to State  
CFDA #93.558 Temporary Assistance for Needy Families (TANF)

**Criteria:** Regulation 45 CFR 74.53 and 34 CFR 80c.42 requires the Department of Public Health and Human Services (department) retain all financial records, supporting documents, statistical records, and all other records pertinent to an award for a period of three years from the date of submission of the final expenditure report.

**Condition:** There were two instances found where the department did not comply with records retention requirements.

**Questioned Costs:** No questioned costs were identified.

**Context:** The department was unable to provide supporting documentation for reviews being conducted at the county level for the TANF program. The department could not find supporting documentation for eight of the nine cash draw documents tested for the Vocational Rehabilitation grant.

**Effect:** The department is not in compliance with federal regulations regarding records management.

**Cause:** The department management indicated the individual who conducted the review for the TANF program was no longer employed in her position and when the employee left, she kept the supporting documentation. Department personnel said the cash draws for the Vocational Rehabilitation grant were made based on daily cash balances obtained from a report downloaded from the state's accounting records on the day of the draw. The report was not retained.

**Recommendation:** We recommend the department implement control procedures to ensure state records and supporting documentation related to a federal award are maintained in accordance with federal regulations.

Corrective Action Plan

Summary Schedule of Prior  
Audit Findings

State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001

**Section III – Federal Award Findings and Questioned Costs**

**Finding #2-26** U.S. Department of Health and Human Services (HHS)  
CFDA #93.563 Child Support Enforcement

**Criteria:** 45 CFR 307.10 states "At a minimum, each state's computerized support enforcement control, account for, and monitor all the factors in the support collection and paternity determination processes under the State plan. At a minimum this must include: (1) Maintaining identifying information such as social security numbers, names, dates of birth, home addresses and mailing addresses (including postal zip codes) on individuals against whom support obligations are sought to be established or enforced and on individuals to whom support obligations are owed, and other data as required by the office..."

**Condition:** Social security numbers (SSN) are used for the majority of enforcement techniques to identify sources of income that could be collected for the custodial parent. Our audit determined the Department of Public Health and Human Service's (department) System for the Enforcement and Recovery of Child Support (SEARCHS) had current, open child support cases with invalid SSNs.

**Questioned Costs:** No questioned costs were identified.

**Context:** We identified 807 absent parents with a current, open child support case with invalid SSNs on the system.

**Effect:** If invalid SSNs are used, income will not be collected and paid to the custodial parent.

**Cause:** Department personnel indicated they were in negotiations with the Social Security Administration in 2000 to update their agreement and SSN interface capabilities.

**Recommendation:** We recommend the division correct invalid or missing social security numbers for absent parents currently on the SEARCHS system and establish procedures to ensure that absent parent information includes a valid social security number.

State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001

**Section III – Federal Award Findings and Questioned Costs**

**Finding #2-27** U.S. Department of Health and Human Services  
CFDA #93.775, 93.777, 93.778 Medicaid Cluster  
CFDA #93.658 Foster Care - Title IV-E  
CFDA #93.563 Child Support Enforcement

**Criteria:** 45 CFR 95.621(f) require the Montana Department of Public Health and Human Services (department) establish procedures for review and analysis of data processing and system security issues for systems used to administer Medicaid, Child Support Enforcement and Title IV-E Foster Care. These regulations include directives regarding risk analyses to ensure both new and existing systems include appropriate, cost effective controls. The department is required to perform risk analysis whenever significant system changes occur and to review system security installations on a biennial basis. At a minimum, the reviews are to address evaluation of physical and data security operating procedures, and personnel practices. The department is to maintain reports on the biennial reviews, together with pertinent supporting documentation, for U.S. Department of Health and Human Services onsite reviews.

**Condition:** The automated data processing system, which impact the above programs, are Montana Medicaid Management Information System, The Economic Assistance Management System, System for the Enforcement and Recovery of Child Support, Child and Protective Services, Agency Wide Accounting and Client System and the state's accounting system. The department has just started to gather information on all systems and their related security. The department has not completed the required risk analysis.

**Questioned Costs:** No questioned costs were identified.

**Context:** OMB Circular A-133 Compliance Supplement identifies this regulation as a special test and provision for the Medicaid Cluster. Total expenditures for the Medicaid Cluster in the fiscal years 1999-00 and 2000-01 were approximately \$347.6 million and \$385.9 million, respectively.

**Effect:** The department is not in compliance with federal regulations for review and analysis of data processing and system security issues for systems.

**Cause:** Department management was made aware of these requirements during the prior audit but has not established a system of review and risk analysis.

**Recommendation:** We recommend the department develop a system security and risk review plan and document the results of the review in order to comply with federal regulations.

State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001

**Section III – Federal Award Findings and Questioned Costs**

**Finding #2-28** U.S. Department of Health and Human Services  
CFDA # Various

**Criteria:** OMB Circular A-102 Section 1, Part d requires agencies to establish procedures for the effective use of the federal List of Parties Excluded from Federal Procurement or Nonprocurement programs to ensure they do not award assistance to listed parties.

**Condition:** The Department of Public Health and Human Services (department) makes payments to medical service providers through the Medicaid Management Information System (MMIS) and payments to certain other sub grantees and vendors through Agency Wide Accounting and Client System (AWACS). When the department renews certain service contracts by extending the date of the original contract, the department does not check suspension and debarment status of the contractor and does not update suspension and debarment contract language.

**Questioned Costs:** No questioned costs were identified.

**Context:** Contracts for service organization, data processing enhancements, and renewals of such service contracts are not reviewed for updated language required by department's legal counsel. These constitute a small number of higher dollar contracts.

**Effect:** The department is not in compliance with federal regulations regarding certification that vendors have not been suspended or debarred.

**Cause:** The department's legal department set contract requirements, but program staff have responsibility to include required language in the contracts executed by the department.

**Recommendation:** We recommend the department develop an approval process to ensure the department is not contracting with suspended or debarred parties.

State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001

**Section III – Federal Award Findings and Questioned Costs**

**Finding #2-29** U.S. Department of Health and Human Services (HHS)  
CFDA #93.959 Block Grants for Prevention and Treatment of Substance Abuse (SAPT)

**Criteria:** 45 CFR 96.124(a)(1) and (2) requires states to earmark a portion of the Block Grants for prevention and treatment of alcohol and other drugs. The OMB Circular A-133 compliance supplement for SAPT states that a state is required to obligate all of the funds awarded during the fiscal year of the award. Amounts obligated by the state which remain unexpended at the end of the fiscal year for which the amounts were awarded shall remain available until the end of the succeeding fiscal year.

**Condition:** When we reviewed the Department of Public Health and Human Services (department) contract, expenditure, and cash draw records, we were unable to verify that expenditures occurred in the period for which the grant award was available and that limitations on expenditures by earmarked category were satisfied. The department did not record SAPT grant expenditures by grant award year and earmarked category on the state's accounting records.

**Questioned Costs:** No questioned costs were identified.

**Context:** The department made SAPT expenditures of \$4,632,762 and \$4,890,430 in fiscal years 1999-00 and 2000-01, respectively.

**Effect:** Department controls do not provide a means for agency personnel to monitor and ensure compliance with SAPT earmarking provisions and period of availability requirements.

**Cause:** Department personnel set up accounts on the state's accounting records in January 2001, to track expenditure by grant award year. Prior to that time, the accounting records did not accumulate expenditures by award year.

**Recommendation:** We recommend the department implement procedures to track earmarked expenditure categories by grant year for the SAPT grant and monitor expenditures to ensure each charge is properly obligated or paid within the period of availability of the grant.

**State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001**

**Section III – Federal Award Findings and Questioned Costs**

**Finding #2-30** U.S. Department of Health and Human Services (HHS)  
CFDA #93.558 Temporary Assistance for Needy Families (TANF)

**Criteria:** 45 CFR part 205.55 and Section 42 USC 1320b-7 require the Department of Public Health and Human Services (department) to verify income including unemployment and unearned income for all TANF participants from sources including the Internal Revenue Service (IRS). In Montana, the Department of Labor and Industry (DOLI) is the agency charged with tracking unemployment income (UI).

**Condition:** The Economic Assistance Management System (TEAMS) is used by the department for TANF eligibility determination and benefits calculation. As of April 1, 2001, the automated interface for wage verification became unavailable to TEAMS users due to the implementation of a UI new computer program at the DOLI. As of August 23, 2001, the department still did not have access to wage verification information from DOLI. Additionally, in 1997 the department had a contract with the IRS to allow for wage information exchange, but no information was ever exchanged. When the TANF oversight personnel became aware the information exchange was not occurring, the contract with the IRS had expired. As a result, department personnel were unable to verify wage information on-line for new applicants or identify changes in wages for established clients. The county offices were sent hard copy reports of wage information. However, personnel indicated the information is untimely and difficult to locate. Caseworkers indicated the county offices have to seek reimbursement for overpayments made to clients in the absence of accurate and timely income information.

**Questioned Costs:** No questioned costs were identified.

**Context:** The department made \$29,587,514 and \$35,297,065 in TANF expenditures in fiscal years 1999-00 and 2000-01, respectively.

**Effect:** The department was not in compliance with 45 CFR Part 205.55 and Section 42 USC 1320b-7 federal regulations during part of the audit period.

**Cause:** On April 1, 2001, the automated interface between the DOLI and TEAMS became unavailable. Additionally, the contract the department had with the IRS for wage information exchange had expired.

**Recommendation:** We recommend the department establish procedures to ensure wage verification for TANF participants.

State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001

**Section III – Federal Award Findings and Questioned Costs**

**Finding #2-31** U.S. Department of Health and Human Services (HHS)  
CFDA #93.563 Child Support Enforcement

**Criteria:** 45 CFR 303.31 grants departments authority to include medical support in all new or modified orders of support if the child does not have satisfactory health insurance other than Medicaid.

**Condition:** Part of the documentation to establish a case is the support order in effect. A medical insurance indicator is entered on the Department of Public Health and Human Service's (department) System for the Enforcement and Recovery of Child Support (SEARCHS) indicating any medical support required. During our audit, we noted that not all cases with a Montana support order had included the medical support.

**Questioned Costs:** No questioned costs were identified.

**Context:** We identified 433 child support cases with a Montana support order, where each case is an open assigned account for public assistance reimbursement; however, the order omitted medical support.

**Effect:** Additional expenses for medical payments may be incurred by Medicaid.

**Cause:** Department personnel stated that they have not been modifying support orders because of a ruling by the Supreme Court of Montana enjoining the Child Support Enforcement Division (CSED) from modifying support orders issued by a Montana District Court. During the 57<sup>th</sup> Montana legislative session, the department was granted the authority to administratively modify orders effective July 1, 2001.

**Recommendation:** We recommend the division ensure medical support obligations are included in Montana support orders for public assistance recipients, in accordance with federal regulations.

Corrective Action Plan

Summary Schedule of Prior  
Audit Findings



State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001

**Section III – Federal Award Findings and Questioned Costs**

**Finding #2-32** U.S. Department of Health and Human Services (HHS)  
CFDA #93.563 Child Support Enforcement

**Criteria:** 45 CFR 307.10 states “At a minimum, each State’s computerized support enforcement system established under the Title IV-D State plan at Sec. 302.85(a) (1) of this chapter must: ... (b) control, account for, and monitor all the factors in the support collection and paternity determination processes under the State plan. At a minimum this must include: ... (5) collecting and distributing both intrastate and interstate support payments.”

**Condition:** Public assistance cases referred to the Department of Public Health and Human Services (department) were not interfacing between the department’s two computer systems. This resulted in caseworkers not performing necessary actions in the required timeframes. We also determined the monthly public assistance reimbursement amount does not reconcile between the System for the Enforcement and Recovery of Child Support (SEARCHS) and the public assistance system.

**Questioned Costs:** No questioned costs were identified.

**Context:** We reviewed public assistance cases referred in the month of February 2001.

**Effect:** If child support collections are received and an account is not set up on SEARCHS, the state will not be reimbursed for the public assistance. In turn, the custodial parent incorrectly receives payment for both the public assistance and child support. Each month, the difference between the child support collections and public assistance is calculated by SEARCHS, and any amount of collections exceeding the public assistance amount is to be paid to the custodial parent. The division has not been paying parents receiving public assistance the excess collections due to the unreconciled difference.

**Cause:** Department personnel stated they are aware the interface is not working accurately, but have not been able to isolate the problems with the interface because they are focusing programming efforts on other priorities. The division is currently working on reconciling the total amount due on accounts or determining whether the money belongs to the state. Personnel indicated they have had problems determining the total dollar amount of public assistance because some of the records were purged from The Economic Assistance Management System (TEAMS). Once Child Support Enforcement Division is confident money is owed, personnel said they intend to distribute the payments.

**Recommendation:** We recommend the division: 1) resolve programming problems to ensure that data interfaces completely and accurately, 2) reconcile current open TEAMS cases with SEARCHS cases to ensure that assigned cases are set up appropriately, 3) distribute excess reimbursed public assistance amounts to custodial parents.



State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001

**Section III - Federal Award Findings and Questioned Costs**

**Finding #2-33** U.S. Department of Health and Human Services (HHS)  
CFDA #93.563 Child Support Enforcement

**Criteria:** 45 CFR 302.32 (1) requires the state to distribute all amounts collected within two business days after receipt if sufficient information identifying the payee is provided.

**Condition:** Child support collections are recorded daily to the Child Support Enforcement Division (CSED) collection system. This system feeds the payment information to the System for the Enforcement and Recovery of Child Support (SEARCHS). A daily report is generated that lists all payments with exceptions. Examples of exceptions include warrants less than ten dollars; unknown addresses; payments requiring manual intervention; no open account associated with participant making payment; and unknown participant making the payment. Custodial parents do not receive their entitled support until the payment exception is resolved. Our audit found payment exceptions that had been unresolved for more than two weeks. Two payments on the exception report dated back to May 1993.

**Questioned Costs:** No questioned costs were identified.

**Context:** We reviewed the payment exception report for March 21, 2001. This report contained 490 payment exceptions totaling \$40,744 that had been unresolved for more than two weeks. There were exceptions totaling \$8,159 where the absent parent making the payment is not recognized by the SEARCHS system.

**Effect:** Custodial parents do not receive their entitled support until the payment exception is resolved.

**Cause:** Federal regulation requires the state to distribute amounts collected within two business days after receipt, however there are no policies or procedures outlining the division's responsibility for resolving payment exceptions in a timely manner.

**Recommendation:** We recommend CSED establish procedures for prompt resolution and distribution of child support payment exceptions.

State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001

**Section III - Federal Award Findings and Questioned Costs**

**Finding #2-34** U.S. Department of Health and Human Services (HHS)  
CFDA #93.667 Social Services Block Grant (SSBG)

**Criteria:** 45 CFR 92.20, Part b2 requires grantees to maintain records which adequately identify the source and application of funds provided for financial assisted activities including awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income.

**Condition:** The financial data reported to HHS by the Department of Public Health and Human Services (department) was not supported by the accounting records. This includes a carryforward on its SSBG program report and an expenditure report for June 30, 2000, which did not include Temporary Assistance for Needy Family Program (TANF) funds transferred to SSBG and spent under SSBG regulations.

**Questioned Costs:** No questioned costs were identified.

**Context:** The department spent SSBG assistance of \$9,378,243 and \$9,750,380 in fiscal years 1999-00 and 2000-01, respectively.

**Effect:** The department submitted unsubstantiated reports to the federal government.

**Cause:** Department personnel indicated the error occurred because three divisions now use SSBG funds instead of one as in previous years.

**Recommendation:** We recommend the department establish procedures to ensure federal Social Services Block Grant reports are supported by the accounting records.

**State of Montana**  
**Schedule of Findings and Questioned Costs**  
**For the Two Fiscal Years Ended June 30, 2001**

**Section III - Federal Award Findings and Questioned Costs**

**Finding #2-35** U.S. Department of Health and Human Services (HHS)  
CFDA #93.044 Special Programs for the Aging - Title III, Part B - Grants for  
Supportive Services and Senior Centers  
CFDA #93.045 Special Programs for the Aging - Title III, Part C - Nutrition Services

**Criteria:** 45 CFR Part 1321 lays out the guidelines for Grants to State and Community Programs on Aging. This includes a requirement that each state agency ensure that residents of long-term care facilities in Montana communities have access to regular visits from Certified Local Ombudsmen.

**Condition:** The Aging Services Bureau (ASB) has not ensured the residents of long-term care facilities in some Montana communities have access to regular visits from Certified Local Ombudsmen as required under federal regulations to protect a vulnerable population.

**Questioned Costs:** No questioned costs were identified.

**Context:** Prior to October 2001, seven communities are without a local ombudsman and one community had a half-time ombudsman to serve 21 long-term care facilities. In October 2001, a certified local ombudsman was hired for one area and the half-time ombudsman is full-time.

**Effect:** Several Montana communities are without a local ombudsman. Without regular visits by local ombudsmen to long-term care facilities, residents do not have access to advocate services should they have concerns their rights are being violated.

**Cause:** ASB staff allocates federal and state funding to the 11 area agencies based on a prescribed funding formula. According to ASB staff, the funding granted to local area agencies is used for local identified needs. In some local communities ombudsman services have not been considered a high priority.

**Recommendation:** We recommend the ASB develop a plan to ensure Certified Local Ombudsman services are available monthly to long-term care facility residents in all Montana communities.

**State of Montana**  
**Schedule of Findings and Questioned Costs**  
**For the Two Fiscal Years Ended June 30, 2001**

**Section III – Federal Award Findings and Questioned Costs**

- Finding #2-36** U.S. Department of Health and Human Services (HHS)  
 CFDA #93.044 Special Programs for the Aging - Title III, Part B - Grants for  
 Supportive Services and Senior Centers  
 CFDA #93.045 Special Programs for the Aging - Title III, Part C - Nutrition Services

**Criteria:** According to 45 CFR part 1321 lays out the guidelines for Grants to State and Community Programs on Aging. This includes the requirement that each state have an approved funding formula used to allocate federal and state funding to area agencies.

**Condition:** The Aging Services Bureau (ASB) contracts with 11 Area Agencies on Aging to provide services to senior citizens. The formula considers factors such as senior citizen populations and the numbers of low income and minority populations within the geographical area of the agencies' boundaries. The state's methodology recognizes the higher costs for providing services in rural counties. The state's methodology also assures Area Agencies on Aging with greater percentages of low income and minority populations will receive additional funding to provide aging services. To calculate the senior citizen population funding factor for the majority of area agencies the ASB allocates the funds based on total population of elderly in the area. To calculate the percentage of funding for the tribal area agency the ASB uses the population of Native American seniors living on the reservation. Seniors living on the reservation, who are not Native American are included and credited to the area agency whose boundaries encompass the reservation. The Area Agencies on Aging officials have notified the ASB they are not in compliance with federal requirements in relation to their funding distributions. They have also notified ASB Area VII that they should provide services to all elderly populations living on Native American Reservations.

**Questioned Costs:** No questioned costs were identified.

**Context:** We reviewed the funding allocation of 11 Area Agencies on Aging.

**Effect:** The actual allocation by ASB differed from the federally approved allocation. Overpayments ranged between \$47 and \$46,307. There was one under payment for \$70,066. Also, analysis of funding allocation methodologies used by three area agencies indicate counties, particularly more rural counties, with greater percentages of low-income and minority populations receive less funding than if the area agencies had used the state's methodology.

**Cause:** The ASB staff has not examined area agency funding methodologies in recent years. The bureau also considers funding methodologies a matter of allowing local agencies to retain control of their funding. One area agency director said the state's funding methodology is complicated and difficult to explain to local aging services representatives, and was unsure how the area agency would implement a similar methodology at the local area. Another area agency director said federal and state allocation methodologies already address the minority and low-income issues, and using similar methodologies at the local level are not needed.

**Recommendation:** We recommend the Aging Services Bureau staff review how Area Agencies on Aging allocate funding to assure area agency methodologies appropriately address the state plan requirements relating to low-income and minority populations.

State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001

**Section III - Federal Award Findings and Questioned Costs**

**Finding #2-37** U.S. Department of Health and Human Services (HHS)  
CFDA #93.775 State Medicaid Fraud Control Units

**Criteria:** OMB Circular A-102, Common Rule, 883 A, Section 21, states grantees must remit interest earned on advances to the federal agency at least quarterly.

**Condition:** The Department of Justice (department) operates the federal Medicaid Fraud Control Unit (unit). The unit receives a portion of amounts recovered when Medicaid fraud cases are finalized. The settlements funds received by the unit are considered program income of the federally funded unit. Federal regulations require the unit to obtain approval from the federal Department of HHS to spend program income. In February 2001, the department received and deposited program income for the unit. In October 2001, the department received permission to spend the program income. The amount of interest earned on these funds was \$3,200. Federal regulations require the grantees to either remit interest earned or seek federal authority to spend the interest.

**Questioned Costs:** No questioned costs were identified.

**Context:** We reviewed all the program income received in fiscal years 1999-00 and 2000-01. This amounted to \$12,022 and \$84,000 in fiscal years 1999-00 and 2000-01, respectively. A settlement of \$75,000 received in fiscal year 2000-01 was the only payment that earned a significant amount of interest.

**Effect:** Non-compliance with federal regulation OMB Circular A-102, Common Rule, 883 A, Section 21.

**Cause:** Department personnel indicated they were unaware of the federal requirements regarding payment of interest.

**Recommendation:** We recommend the department establish accountability for interest earned on the federal program income funds of the Medicaid Fraud Control Unit.

**State of Montana**  
**Schedule of Findings and Questioned Costs**  
**For the Two Fiscal Years Ended June 30, 2001**

**Section III - Federal Award Findings and Questioned Costs**

**Finding #2-38** U.S. Department of Health and Human Services (HHS)  
CFDA #93.775 State Medicaid Fraud Control Unit

**Criteria:** 31 CFR 205.20 states cash advances shall be limited to the minimum amounts needed and shall be timed to be in accord with the actual immediate cash requirements of the program. The timing and amount of the advances shall be as close as is administratively feasible to the actual cash outlay.

**Condition:** The Department of Justice (department) made inconsistent cash draws in relation to the expenditures for the unit. Some months federal cash draws exceeded expenditures while in other months, expenditures exceeded cash draws. Although the department indicated cash draws are executed monthly, we identified five months during the audit period that no federal deposits were recorded.

**Questioned Costs:** No questions costs were identified.

**Context:** The department reported \$378,496 and \$305,561 of expenditures in fiscal years 1999-00 and 2000-01, respectively.

**Effect:** Non-compliance with federal cash management regulations.

**Cause:** Per department personnel, cash draws for the Medicaid Fraud Control Unit have historically been done based on expected upcoming expenditures and cash flow needs.

**Recommendation:** We recommend the department establish procedures to ensure cash draws from the federal government are executed in accordance with federal regulations and state law.

State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001

**Section III – Federal Award Findings and Questioned Costs**

**Finding #2-39** U.S. Department of Health and Human Services (HHS)  
CFDA #93.775 State Medicaid Fraud Control Units

**Criteria:** 42 CFR 1007.19(e)(4) states federal funds are not available for expenditures attributable to performance by a person other than a full-time employee of the unit for any functions including management, audit, investigation, legal, or prosecution.

**Condition:** Travel expenditures for a Department of Justice (department) administrator who was not a full-time employee of the unit were allocated to the Medicaid Fraud Control Unit.

**Questioned Costs:** Questioned costs identified were less than \$600.

**Context:** The department reported \$378,496 and \$305,561 in expenditures in fiscal years 1999-00 and 2000-01, respectively.

**Effect:** The department is not in compliance with 42 CFR 1007.19(e)(4) and unallowable costs were charged to the grant.

**Cause:** Agency personnel indicated travel expenditures of the administrators have routinely been allocated to the funding sources of the programs administered by the Division of Criminal Investigation.

**Recommendation:** We recommend the department revise travel cost allocation procedures to ensure expenditures charged to the Medicaid fraud grant are allowable.



**State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001**

**Section III – Federal Award Findings and Questioned Costs**

**Finding #2-40** Various Federal Agencies  
CFDA # Various - Research and Development Cluster

**Criteria:** OMB Circular A-21 requires activity reports for federal grants and contracts accurately reflect employee activities. These reports are required to be signed by the employee, principal investigator, or responsible official who has suitable means of verifying the work was actually performed.

**Condition:** At The University of Montana-Missoula the geology department does not appropriately certify employee time and effort reports as required by federal regulation. An administrative aide, who does not have direct knowledge of what work was performed by employees, is certifying the time.

**Questioned Costs:** We question \$85,521 and \$112,479 of personal service charges to various grants and contracts for fiscal year 1998-99 and 1999-00, respectively.

**Context:** We reviewed time and effort reporting for four grants at the Missoula campus and identified only the geology department was in noncompliance.

**Effect:** The University of Montana-Missoula is not in compliance with OMB Circular A-21.

**Cause:** This certification method was used to expedite processing of time and effort reports for the department.

**Recommendation:** We recommend The University of Montana-Missoula monitor its employee time and effort reporting system to ensure certification reports are certified in accordance with federal regulations.

State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001

**Section III - Federal Award Findings and Questioned Costs**

**Finding #2-41** Various Federal Agencies  
CFDA # Various - Research and Development Cluster

**Criteria:** OMB Circular A-21 requires that recipients of federal funds keep documentation to support the propriety of all costs charged to federal programs.

**Condition:** Montana Tech of The University of Montana (UM-Tech) charges federal grants and contracts a percentage of personal services costs for employee benefits. These charges are deposited into a leave pool. Prior to July 1, 1999 UM-Tech had not recalculated its leave pool rate since fiscal year 1993-94. On July 1, 1999 UM-Tech changed its leave pool rates to the rates used by another campus. The UM-Tech does not have adequate documentation to support the leave rates used for its leave pool.

**Questioned Costs:** We question \$149,403 and \$160,059 of charges to various grants and contracts for fiscal years 1998-99 and 1999-00, respectively.

**Context:** We reviewed the adequacy of leave pool rate support for fiscal years 1998-99 and 1999-00 at the UM-Tech.

**Effect:** UM-Tech is not in compliance with OMB Circular A-21.

**Cause:** UM-Tech personnel believed that by setting the leave pool rates the same as the other campus it could rely on that campus' documentation to support the leave pool rates.

**Recommendation:** We recommend Montana Tech of The University of Montana adequately support the leave pool rates as required by federal regulation.

State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001

**Section III – Federal Award Findings and Questioned Costs**

**Finding #2-42** U.S. Department of Labor  
CFDA #17.253 Welfare-to-Work Grants to States and Localities

**Criteria:** OMB Circular A-87, Attachment A, Section C.1.d, states that costs must conform to the terms and conditions of the federal award to be allowable costs under the award.

**Condition:** The Department of Labor and Industry (department) charged costs to the Welfare to Work grant in excess of the amount authorized in grant award letters. The department did not draw funds from the U.S. Department of Labor for the charges because the authority to do so had been exhausted.

**Questioned Costs:** We identified \$200,695 in questioned costs.

**Context:** The department submitted the final Welfare-to-Work financial report in December 2001. The department recorded direct grant expenditures of \$3,205,263 and \$291,567 in fiscal years 1999-00 and 2000-01, respectively.

**Effect:** The department recorded \$200,695 in costs to the Welfare-to-Work program beyond the amount granted in the award.

**Cause:** Program personnel at the department's Workforce Services Division offices continued to enroll clients for benefits under the federal program even though the grant funding had been fully expended. The lack of availability of grant funds was not effectively communicated to the department's field personnel.

**Recommendation:** We recommend the department develop procedures to ensure personnel operating federally funded programs are notified when funding is no longer available.

State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001

**Section III – Federal Award Findings and Questioned Cost**

**Finding #2-43** U.S. Department of Agriculture (USDA)

CFDA #10.551 Food Stamps

CFDA #10.561 State Administrative Matching Grants for Food Stamp Program

**Criteria:** OMB Circular A-133, Food Stamps Cluster compliance supplement requires monthly reporting of the Food Nutrition Service (FNS) 46 report and the FNS-250 report. The FNS-250 report is to be submitted within 45 calendar days after the last day of coupon issuance each month and should reach the FNS by the 15<sup>th</sup> day of the second month following the last day of coupon issuance for the month. As a key internal control the Department of Public Health and Human Services (department) requires monthly reconciliation of the stamps reported as issued by the contractor to TEAMS (The Economic Assistance Management System) the system used by the department to determine client eligibility and allowable stamp issuance amounts.

**Condition:** During the first eight months of fiscal year 2000-01, only one monthly and no quarterly reconciliations had been completed. Therefore, the federal reports were not completed on time.

**Questioned Costs:** No questioned costs were identified.

**Context:** The department distributed food stamps valued at \$53,392,372 in fiscal year 2000-01.

**Effect:** Since the food stamp issuance data has not been reconciled, the department has not been able to submit timely FNS-46 and FNS-250 reports to the federal government.

**Cause:** The employee who performed the reconciliations for 10 years terminated in July of 2000. The position was not filled until November of 2000. No employee was cross-trained to perform the reconciliations. Additionally, the reconciliation form was cumbersome and the procedures were not documented. Consequently, department personnel could not effectively assign another employee to perform the reconciliations.

**Recommendation:** We recommend the department document procedures used to reconcile food stamp issuances reported by the contractor and those recorded as authorized on the department's records and cross train employees so administrative responsibilities can be met if turnover occurs.

State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001

**Section III - Federal Award Findings and Questioned Costs**

<b>Finding #2-44</b>	U.S. Department of Health and Human Services (HHS)
CFDA #93.778	Medical Assistance Program (Medicaid; Title XIX)
CFDA #93.777	State Survey and Certification of Health Care Providers and Suppliers
CFDA #93.558	Temporary Assistance for Needy Families
CFDA #10.551	Food Stamps
CFDA #93.575	Child Care and Development Block Grant

**Criteria:** OMB Circular A-133, Subpart C(b) requires internal controls over its federal awards to provide reasonable assurance that it is managing those awards in compliance with applicable laws and regulations.

**Condition:** The Department of Public Health and Human Services (department) utilizes The Economic Assistance Management System (TEAMS) to determine eligibility and benefit determinations for Medicaid, Temporary Assistance to Needy Families, Food Stamps, and Child Care Development Fund awards. As an internal control, the department consulted with TEAMS to produce a series of exception reports to use in ensuring eligibility and benefit determinations are made in compliance with applicable laws and regulations. We reviewed the department's use of some of the exception reports to determine whether internal controls were in place. Per our review, we found that some of the reports are either not utilized or contain outdated information.

**Questioned Costs:** No questioned costs were identified.

**Context:** TEAMS generates a number of reports to aid in management of economic assistance programs. We identified five different types of reports which are not being used effectively or efficiently.

**Effect:** Exception report information is not followed up on and resolved, overpayments are still open and not returned, duplicate cases are not inactivated; possibly resulting in duplicate payments. Additionally, there is an inefficient use of time in generating and disbursing reports that are not used or reviewing reports that contain the same information from month to month, but are never followed up on.

**Cause:** Turnover at the department has resulted in lost procedures for using the reports. New employees are unaware of what should be done with the exception reports. There is also a lack of communication between the creator of the reports and users. The users of the report have not communicated which reports are not needed.

**Recommendation:** We recommend the department discontinue preparing ineffective TEAMS exception reports and establish procedures to ensure the use of those reports useful in monitoring program activities.

State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001

**Section III – Federal Award Findings and Questioned Costs**

**Finding #2-45** U.S. Department of Agriculture  
CFDA #10.555 National School Lunch Program for Children

U.S. Department of Education  
CFDA #84.010 Title I Grants to Local Educational Agencies  
CFDA #84.027 Special Education - Grants to States (Special Education Cluster)  
CFDA #84.048 Vocational Education - Basic Grants to States

**Criteria:** The Cash Management Improvement Act (CMIA) requires the U.S. Secretary of Treasury to enter into agreements with states to establish terms and conditions for cash management of certain federal grant programs. The CMIA agreement applies to the Office of Public Instruction (office) administration of the federal programs identified above. The CMIA agreement requires the office to draw cash for those schools receiving funds through electronic funds transfer one day after the payment is made and between four and six days after payment is made for those schools receiving funds by warrants, depending on the grant. For the National School Lunch Program it is six days; for Title I it is five days; and for Special Education and Vocational Education it is four days.

**Condition:** The office draws cash for these programs using only the electronic funds transfer pattern.

**Questioned Costs:** No questioned costs were identified.

**Context:** Of the 56 counties within the state, four receive funds by warrants rather than electronic funds transfer in fiscal year 1999-00. These four counties represent 5 to 10 percent of the school district recipients. In fiscal year 2000-01, two counties received funds by warrant. In fiscal year 2001-02, only one county received funds by warrant. This county receives approximately 3 percent of the total federal awards administered by the office.

**Effect:** By disregarding the warrant clearance patterns, the office is not in compliance with the CMIA agreement and the potential exists for interest to be owed to the federal government.

**Cause:** Office personnel stated it would be difficult to isolate the amount of benefits being paid on warrants within the state's accounting system.

**Recommendation:** We recommend the office develop a cost-effective method for identifying amounts paid by warrant to subrecipients in order to comply with the provisions of the Cash Management Improvement Act.

**State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001**

**Section III – Federal Award Findings and Questioned Costs**

**Finding #2-46** U.S. Department of Labor  
CFDA #17.225 Unemployment Insurance (UI)

**Criteria:** The computation of the employer's annual tax rate is based on State Unemployment Insurance laws (26 USC Section 3303). State law, section 39-51-1219, MCA requires that experience factors used to calculate the Unemployment Insurance rate be applied in certain situations to successor employers.

**Condition:** The computer system used to calculate UI rates for calendar year 2001 did not properly transfer the experience rating from previous employers to successor employers. As a result of not transferring the experience rating properly, the UI rate calculated by the Department of Revenue for calendar year 2001 may not be correct for these employers.

**Questioned Costs:** No questioned costs were identified.

**Context:** The Department of Revenue calculated a UI tax rate for approximately 35,000 employers for calendar year 2001. Of these 35,000 employers, 925 employers were identified in the population of employers whose rates may not have been calculated correctly.

**Effect:** The Department of Revenue may have provided an incorrect UI tax rate to approximately 925 employers for calendar year 2001.

**Cause:** The computer system used to calculate the rates did not properly transfer experience factors for successor employers.

**Recommendation:** We recommend the Department of Revenue properly consider experience factors as required by state law when calculating the UI rate for successor employers.

**State of Montana**  
**Schedule of Findings and Questioned Costs**  
**For the Two Fiscal Years Ended June 30, 2001**

**Section III – Federal Award Findings and Questioned Costs**

**Finding #2-47 U.S. Department of Agriculture**

CFDA #10.551 & 10.561 Food Stamp Cluster

CFDA #10.557 Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)

CFDA #10.555 National School Lunch Program

CFDA #10.567 Food Distribution Program on Indian Reservations

U.S. Department of Education

CFDA #84.126 Rehabilitation Services - Vocational Rehabilitation Grants to States

U.S. Department of Health and Human Services

CFDA #93.044 & 93.045 Aging Cluster

CFDA #93.558 Temporary Assistance for Needy Families Program

CFDA #93.563 Child Support Enforcement

CFDA #93.568 Low Income Home Energy Assistance

CFDA #93.575 & 93.596 Child Care Cluster

CFDA #93.658 Foster Care - Title IV-E

CFDA #93.667 Social Service Block Grant

CFDA #93.775, 93.777, & 93.778 Medicaid Cluster

CFDA #93.959 Block Grants for Prevention and Treatment of Substance Abuse

CFDA #93.767 State Children's Insurance Program

U.S. Department of Social Security Administration

CFDA #96.001 Social Security - Disability Insurance

See the Schedule of Findings and Questioned Costs, Section II – Financial Statement Findings, Finding #1-1 for details.



State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001

**Section III – Federal Award Findings and Questioned Costs**

**Finding #2-48** U.S. Department of Agriculture

CFDA #10.551 & 10.561 Food Stamp Cluster

CFDA #10.557 Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)

CFDA #10.555 National School Lunch Program

CFDA #10.567 Food Distribution Program on Indian Reservations

U.S. Department of Education

CFDA #84.126 Rehabilitation Services - Vocational Rehabilitation Grants to States

U.S. Department of Health and Human Services

CFDA #93.044 & 93.045 Aging Cluster

CFDA #93.558 Temporary Assistance for Needy Families Program

CFDA #93.563 Child Support Enforcement

CFDA #93.568 Low Income Home Energy Assistance

CFDA #93.575 & 93.596 Child Care Cluster

CFDA #93.658 Foster Care - Title IV-E

CFDA #93.667 Social Service Block Grant

CFDA #93.775, 93.777, & 93.778 Medicaid Cluster

CFDA #93.959 Block Grants for Prevention and Treatment of Substance Abuse

CFDA #93.767 State Children's Insurance Program

U.S. Department of Social Security Administration

CFDA #96.001 Social Security - Disability Insurance

See the Schedule of Findings and Questioned Costs, Section II – Financial Statement Findings, Finding #1-2 for details.

Corrective Action Plan

Summary Schedule of Prior  
Audit Findings

**State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001**

**Section III – Federal Award Findings and Questioned Costs**

**Finding #2-49** U.S. Environmental Protection Agency  
CFDA #66.458 Capitalization Grants for State Revolving Funds  
CFDA #66.468 Capitalization Grants for Drinking Water State Revolving Fund

See Schedule of Findings and Questioned Costs, Section II – Financial Statement Findings, Finding #1-4 for details.

**State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001**

**Section III – Federal Award Findings and Questioned Costs**

**Finding #2-50** U.S. Environmental Protection Agency  
CFDA #66.458 Capitalization Grants for State Revolving Funds  
CFDA #66.468 Capitalization Grants for Drinking Water State Revolving Funds

See Schedule of Findings and Questioned Costs, Section II – Financial Statement Findings, Finding #1-5 for details.

**Corrective Action Plan**

**Summary Schedule of Prior  
Audit Findings**

State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001

Section III - Federal Award Findings and Question Costs

**Finding #2-51** U.S. Department of Education  
CFDA #84.243 Tech-Prep Education

**Criteria:** OMB Circular A-133 defines questioned costs to include costs that are questioned by the auditor because of an audit finding for which the costs at the time of the audit are not supported by adequate documentation. The Tech-Prep grant instructions issued by the Office of Vocational and Adult Education on May 19, 2000 includes restrictions on grant expenditures for presenter fees.

**Condition:** The Office of the Commissioner of Higher Education (office) administers the Tech-Prep Education Grant. During fiscal year 2000-01, the office received two refunds from subrecipients, which should have reduced the expenditures reported for this grant. However, the grant accountant mistakenly recorded expenditures, which overstated the actual Tech-Prep expenditures. The office also charged \$2,751 in presenter fees, which are not allowable grant expenditures

**Questioned Costs:** We question \$47,663 of expenditures, which are overstated and \$2,751 of presenter fee expenditures for the Tech-Prep grant in fiscal year 2000-01.

**Context:** Federal expenditures reported for the Tech-Prep grant were \$573,343 in fiscal year 2000-01.

**Effect:** The office overstated expenditures to the federal government and charged costs which were not allowable.

**Cause:** The grant accountant made an error in recording the subrecipients' refunds. The presenter fees were supposed to be paid by the educational consortiums attending the conferences but not all presenter costs were recovered.

**Recommendation:** We recommend the office strengthen accounting procedures to ensure federal amounts are allowable.

State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001

**Section III - Federal Award Findings and Questioned Costs**

**Finding #2-52** U.S. Department of Education  
CFDA #84.032 Federal Family Education Loans

**Criteria:** 34 CFR 682.410(c)(1) requires the Montana Board of Regents and Office of the Commissioner of Higher Education (office) Guaranteed Student Loan program (program) to conduct comprehensive biennial on-site reviews of certain lenders participating in the Federal Family Education Loan program. These regulations require the program to review lenders whose dollar volume of loans made or held and guaranteed by the program in the preceding year (a) equaled or exceeded two percent of the total of all loans guaranteed by the program that year, (b) was one of the ten largest lenders whose loans were guaranteed by the program that year, or (c) equaled or exceeded \$10 million.

**Condition:** Program personnel determined that one lender is a loan servicer for nine of the highest volume lenders and the lender review was completed on time. However, they did not complete a review for the one lender that is the largest volume lender.

**Questioned Costs:** No questioned costs were identified.

**Context:** The office completed nine of the ten reviews required for the period of January 1, 2000 to December 31, 2001.

**Effect:** The office was not in compliance with 34 CFR 682.410(c)(1) for lender reviews.

**Cause:** Program personnel did not have enough time to complete all ten lender reviews.

**Recommendation:** We recommend the Office of the Commissioner of Higher Education perform biennial reviews of lenders meeting federal criteria as required by federal regulations for the Federal Family Education Loan program.

Corrective Action Plan

Summary Schedule of Prior  
Audit Findings

**State of Montana**  
**Schedule of Findings and Questioned Costs**  
**For the Two Fiscal Years Ended June 30, 2001**

**Section III – Federal Award Findings and Questioned Costs**

**Finding #2-53** U.S. Department of Defense  
CFDA #12.404 National Guard Civilian Youth Opportunities

**Criteria:** The Uniform Requirements for Grants and Cooperative Agreements states "... except as provided by Federal statute, a cost sharing or matching requirement may not be met by costs borne by another Federal Grant." CFDA #12.404, the Youth Challenge Program agreement, has specific state and federal matching requirements.

**Condition:** The Department of Military Affairs (department) used \$200,000 of federal funds (CFDA #17.259 WIA) subgranted from another state agency for matching funds for the federal amounts available under CFDA #12.404 for the Youth Challenge Program.

**Questioned Costs:** We question \$329,074 of expenditures.

**Context:** Total expenditures for the Youth Challenge Program were \$2,734,197. This consisted of: \$200,000 in federal funds from the Workforce Investment Act (WIA) Youth Activities (CFDA #17.259) subgranted from the Montana Department of Labor and Industry; \$1,762,404 in federal funds from CFDA #12.404; and \$771,793 in state matching funds for the Youth Challenge Program.

**Effect:** The department did not meet the matching requirements for the Youth Challenge Program. Under the matching requirements for CFDA #12.404, federal expenditures should not have exceeded \$1,433,330. We question federal expenditures exceeding this amount.

**Cause:** Based on information provided from an official in the Governor's Office, department officials believed the \$200,000 WIA funds could be used as matching funds for the Youth Challenge Program.

**Recommendation:** We recommend the Department of Military Affairs comply with the matching requirements for CFDA #12.404.

State of Montana  
Schedule of Findings and Questioned Costs  
For the Two Fiscal Years Ended June 30, 2001

**Section III – Federal Award Findings and Questions Costs**

**Finding #2-54** U.S. Department of Agriculture  
CFDA #10.555 National School Lunch Program

**Criteria:** 7 CFR 210.18(c): The Office of Public Instruction (office) is required to conduct on-site reviews of each school food authority participating in the National School Lunch Program during each review cycle established in federal regulation. The first review cycle ended June 30, 1998, the second review cycle will end June 30, 2003, and the third review cycle will end June 30, 2008. In addition, each review must occur no later than six years after the prior review.

**Condition:** We tested a sample of ten school food authorities receiving lunch reimbursement during state fiscal years 2000-01 and 2001-02. We determined that only four of these school food authorities are part of the second review cycle. Of these, two will be conducted more than six years after the prior review. We were unable to determine whether the other two reviews will be timely as office personnel were unable to locate documentation from the prior review. The remaining six school food authorities are not scheduled for review until the third cycle. Office personnel were able to provide documentation of a first cycle review for only four of these six school food authorities.

**Questioned Costs:** No questioned costs were identified.

**Context:** There are approximately 270 school food authorities in the state. Total federal expenditures in fiscal year 2000-01 for the National School Lunch Program were \$14,202,093.

**Effect:** The Office of Public Instruction cannot be assured it will detect and address instances of non-compliance on the part of school food authorities in a timely manner.

**Cause:** Complete turnover occurred in the positions assigned the on-site review responsibilities. Present personnel indicated they are approximately two years behind completing the on-site reviews.

**Recommendation:** We recommend the office ensure the on-site reviews are performed in accordance with federal regulations and retain review documentation.

Corrective Action Plan

Summary Schedule of Prior  
Audit Findings





**Corrective Action Plan**

**Summary Schedule of Prior  
Audit Findings**



# Corrective Action Plan

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## Table of Contents

Corrective Action Plan .....	Page D-1
------------------------------	----------

**FY01 Financial Section**

**FY00 Financial Section**

**Auditor's Report & Findings**

**Corrective Action Plan**

**STATE OF MONTANA  
CORRECTIVE ACTION PLAN  
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2001**

Finding #	CFDA #	CAP-Corrective Action Plan	Person Responsible for CAP	Target Date
Finding #2-1	10.557	Public Health and Human Services (PHHS) has implemented the additional procedures.	Marie Matthews, Fiscal Policy Advisor	Completed
Finding #2-2	Various	A fiscal policy memo has been issued by PHHS outlining the proper transactions to include in the CMIA interest obligation calculation spreadsheets. This policy memo was reviewed by the Department of Administration prior to issuance.	Marie Matthews, Fiscal Policy Advisor	Completed
Finding #2-3	Various	A workplan is in process to improve all areas of cash management at PHHS.	Marie Matthews, Fiscal Policy Advisor	March 31, 2002
Finding #2-4	12.404	The Department of Military Affairs purchasing card procedures have been in effect since April 1999. The procedures specifically address splitting charges to avoid purchasing limits. Every employee receives training from the Purchasing Card Coordinator prior to receiving his or her credit card. They also receive annual refresher training. The employee who made this mistake was given her initial training prior to receiving her purchasing card, as stated in the Department procedures. She attended her purchasing card refresher training January 9, 2002.	Gail Dreher, Accountant	Corrected at time of audit
Finding #2-5	14.239, 14.871, 14.855	Federal Circular A-87 have been provided to appropriate staff in the Housing Division.	Connie Onstad, George Warn, Housing Division	Implemented
Finding #2-6	14.239	Grantees must provide program income plans before funds are released.	Connie Onstad, Home Program Manager	Implemented
Finding #2-7	15.904	The Montana Heritage Commission reversed the \$250, \$77, and \$13,409 charges identified in this finding. In addition, all future equipment purchased that is used by both the State and Federal projects will be adjusted for cost share at 10% and 90% respectively. To ensure that all future purchases under this Federal grant are allowable, staff responsible for purchasing have obtained and studied pertinent OMB Circulars and are following these requirements closely.	Jeff Thieri, Executive Director, MT Heritage Commission	Completed

**STATE OF MONTANA  
CORRECTIVE ACTION PLAN  
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2001**

CAP- Corrective Action Plan

Finding #	CFDA #		Person Responsible for CAP	Target Date
Finding #2-8	66.458 66.468	Department of Environmental Quality (DEQ) has submitted Federal Cash Transaction Reports to the U.S. Department of Energy. The U.S. Department of the Interior does not require the reports due to the electronic cash draw system that it uses. DEQ has requested an exemption from our oversight agency, EPA, and we are awaiting their disposition. As the department goes to electronic cash draws our records are reconciled with the federal agency, enabling all to work from the same database thereafter. This diminishes the need for the reports.	DEQ Internal Auditor	Request submitted November 2001
Finding #2-9	15.252	The DEQ is complying with this recommendation. Division Administrators and CSD are reviewing all contracts to ensure that the reimbursement clause is reasonable and will not create a cash flow problem for the agency. As an example, include the ability to bill incrementally as work is completed rather than when the project is completed.	Centralized Services Division Administrator	This was completed in April of 2001.
Finding #2-10	15.605 15.611	The amount available, to be requested to be drawn down, comes from an Excel spreadsheet that used a clearance pattern of 4 days. The spreadsheet was corrected to use a clearance pattern of 6 days.	David Clark-Snustad, Accountant, FWP	Corrected at time of audit
Finding #2-11	15.904	The Montana Heritage Commission (MHC) made a request to the National Park Service (the federal granting agency), to amend the grant agreement so that it reflects the grantor agency's intent in relation to cash management. This request also clarified MHC's intent for the agreement to address the interest issued raised in the audit. Also in the request, MHC agreed to request that the legislature pay back interest to the National Park Service with general fund monies if an agreement could not be reached in a reasonable time frame. Bob Spude and Joe Wallis from the National Park Service responded that the interest may be kept by the State of Montana.	Jeff Tibert, Executive Director, MT Heritage Commission	Completed
Finding #2-12	Various	The Department of Labor and Industry negotiated with the U.S. Department of Labor for a reduction of its CAP rate from 7.69% to 4% effective January 26, 2001. Based on this rate reduction, the department was able to bring the fund balance within the allowable 60-day limit by the end of fiscal year 2001. Fiscal year 2001 expenditures totaled \$1,549,770, which allowed the department a 60-day cash reserve of \$258,295. The fund balance in the CAP fund at June 30, 2001 was \$256,891. The department continues to monitor the working capital balance in its CAP fund on a monthly basis.	Gary Warren, Fiscal Support Bureau	June 30, 2001

**STATE OF MONTANA  
CORRECTIVE ACTION PLAN  
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2001**

CAP: Corrective Action Plan		CAP: Corrective Action Plan		
Finding #	CFDA #		Person Responsible for CAP	Target Date
Finding #2-13	17.225	The Department of Labor and Industry is continuing to work with Department of Revenue (DOR) in preparing and submitting the ETA 581 reports. The ETA 581 reports have been submitted for the quarters ending March 31 and June 30, 2000. DLI is now waiting for the ETA 581 reports for quarters ending September 30, 2000, December 31, 2000, March 31, 2001, June 30, 2001, September 30, 2001 and December 31, 2001. At this time there are six quarters worth of delinquent ETA 581 reports. As of the January 23, 2002 POINTS update, the DOR was still reviewing the ETA 581 output for the quarter ending September 30, 2000.	Annette Rinehart, UI Division	Ongoing
Finding #2-14	17.207	Based upon the Legislative Audit Division audit recommendation and guidance from OMB Circular A-87, the department applied the real estate sale proceeds against future bond payments. Revenues from the sale proceeds were fully recognized by September 27, 2001.	Tammy Proudt, FSB	Completed as of September 27, 2001
Finding #2-15	17.225	The Clearing account, the Unemployment Insurance Trust Fund and the Benefit account are reconciled on a monthly basis. The Clearing account and the UI Trust Fund match the statements. The Benefit account is still a work-in-progress as several processes have changed during state fiscal year 2001. MISTICS was put in place in April 2001 and the new system generates entries directly to SABHRS. There are rounding differences, manual entries for state dated checks and verification of stop pays and cancelled warrants still being reviewed to verify which ones have been recorded and which still need recording on SABHRS. As of state fiscal year end 2001 there is approximately \$100,000 that has not been reconciled on the UI Benefit account. Consequently, this continues to be a reconciling item each month. The department is working to have the \$100,000 reconciled by June 30, 2002.	Annette Rinehart, UI Division	June 30, 2002
Finding #2-16	17.225	The Department of Revenue is following state policy for expenditure accruals as defined in Management Memos under the Montana Operations Manual.	Lynn Chenoweth, Administrator Resource Management	Implemented
Finding #2-17	17.225	The Department of Revenue is following federal standards to ensure Unemployment Insurance receipts are deposited timely to the federal UI Trust Fund. Modifications will be explored as needed to comply with federal requirements.	Neil Peterson, Administrator Customer Service	Procedures Implemented March 2001

## Corrective Action Plan

**STATE OF MONTANA  
CORRECTIVE ACTION PLAN  
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2001**

Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
Finding #2-18	20.205	This will be nominated as a process improvement project to the Administrative staff at the Department of Transportation. The Accounting Services Bureau will develop and implement procedures during fiscal year 2002 to identify the offices that are sub-granting federal monies, and determine that those programs are in compliance with OMB Circular A-87.	Gordon McGaw, Admin. Division	June 30, 2002
Finding #2-19	86.458, 86.468	Discussion has taken place with the Legislative Audit Division on recommended language. Language now incorporated in Officer's Certificate. DEQ engineer checklist will verify contractor compliance.	Anna Miller, Financial Advisor, DNRC	February 2002
Finding #2-20	Various	The Department of Environmental Quality (DEQ) has evaluated different methodologies for calculating leave liability, and proposed our preferred methodology to EPA, which is the federal agency that provides DEQ the most grant funds and negotiates on behalf of all federal agencies. DEQ is awaiting final approval of the request, which is expected soon.	Centralized Services Division Administrator	Request submitted November 2001
Finding #2-21	84.038	Effective immediately, MSU's Loan Service Center personnel will review all reports obtained from the service provider's independent auditor. Instances of non-compliance will be reported to the Controller and to the Financial Aid Director, and necessary corrective action will be taken.	Laura Humberger, Comptroller MSU Bozeman	Ongoing
Finding #2-22	93.778	Procedures exist outlining the security responsibilities of the MMIS coordinator, the procedure will be strengthened to improve its effectiveness and to ensure turnover does not hamper its operation.	Marie Matthews, Fiscal Policy Advisor	Completed
Finding #2-23	93.778	Medicaid recycling practices will be reviewed to ensure compliance with federal regulations.	Marie Matthews, Fiscal Policy Advisor	March 31, 2002
Finding #2-24	93.959	PHHS will review alternative funding sources for the advance.	Marie Matthews, Fiscal Policy Advisor	March 31, 2002
Finding #2-25	Various	PHHS will review its record retention guidance to ensure supporting documents are maintained.	Marie Matthews, Fiscal Policy Advisor	March 31, 2002



**STATE OF MONTANA**  
**CORRECTIVE ACTION PLAN**  
**FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2001**  
**CAP: Corrective Action Plan**

Finding #	CFDA #	CAP: Corrective Action Plan	Person Responsible for CAP	Target Date
Finding #2-26	93.563	While the CSED strives to validate 100% of these SSNs, this is a difficult, if not impossible, task. On average, the CSED opens 575 new cases each month. Often, the applicant will not know the SSN of the absent parent and, therefore, will be unable to provide this information to the CSED on the application. It would not be justifiable or allowable for the CSED to deny child support services simply because the applicant does not know the absent parents SSN. CSED will open the case on SEARCHS, but leave the SSN information blank. After loading the case, the CSED will take action to find the SSN through several steps. Typically, with the absent parents name and date of birth, the CSED will be able to successfully identify the SSN by accessing its locate tools through a name search. There are, however, instances when the CSED does not know the name, correct or full name, or date of birth of the absent parent. In circumstances where the name of the absent parent is unknown, the CSED will conduct an in-person interview with the applicant in an effort to gather additional locate information for the case. PHHS will review and make improvements to our system security and risk review plan and its documentation.	Marie Matthews, Fiscal Policy Advisor	Completed
Finding #2-27	Various	PHHS will review the contracting process to ensure the proper language is included in new and amended contracts.	Marie Matthews, Fiscal Policy Advisor	December 31, 2002
Finding #2-28	Various	Additional accounting methods are being implemented to track earmarked expenditures and ensure payments are properly obligated or paid.	Marie Matthews, Fiscal Policy Advisor	April 30, 2002
Finding #2-29	93.959	Procedures for ensuring wage verification should be completed by year end	Marie Matthews, Fiscal Policy Advisor	June 30, 2002
Finding #2-30	93.558	Presently, all child support orders administratively established by the CSED contain a medical support provision. However, not all support orders issued by Montana District Courts contain a medical support provision. During the 2001 legislative session, the CSED pursued legislation amending our authority to administratively modify district court child support orders, in compliance with the Seubert v. Seubert decision of the Montana Supreme Court, issued August 31, 2000 and clarified November 30, 2000. The legislation was effective July 1, 2001. Based on this legislation, the CSED has recently implemented procedures to, again, pursue the review and modification of child support orders issued by a Montana district court. With this ability, the CSED will be able to have medical support obligations incorporated into orders through the review and modification process.	Marie Matthews, Fiscal Policy Advisor	June 30, 2002
Finding #2-31	93.563		Marie Matthews, Fiscal Policy Advisor	Completed

**STATE OF MONTANA  
CORRECTIVE ACTION PLAN  
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2001**

Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
Finding #2-32	93.563	PHHS continues work on the accuracy and completeness of TEAMS/SEARCHS interfaced data. Procedures are in place to monitor and correct interface discrepancies until long term solutions are developed. The department has completed a review of all public assistance cases identified as referred by TEAMS and worked with TRW to ensure the electronic referral was received by SEARCHS. The department is currently reviewing a report of TEAMS Medicaid cases to ensure all appropriate referrals are made to SEARCHS. The Department continues to work diligently to identify and pay all excess reimbursed public assistance amounts to custodial parents. Progress has been slowed by significant data processing issues and programming resource constraints but the department commits to reconcile the potentially owed report and refund all appropriate entities.	Marie Matthews, Fiscal Policy Advisor	Ongoing
Finding #2-33	93.563	The CSFD Fiscal Operations Section has begun actively investigating and responding to all payments on the exceptions reports. Policies and procedures will be developed to address all types of situations identified via the reviews, including issuing a problem report should SEARCHS programming be necessary.	Marie Matthews, Fiscal Policy Advisor	Completed
Finding #2-34	93.667	This activity is included in the financial control structure work plan.	Marie Matthews, Fiscal Policy Advisor	March 31, 2002
Finding #2-35	93.044, 93.045	The ASB staff and the Area Agency on Aging Directors have agreed this is a priority for the remaining two years of Montana's current State Plan on Aging. ASB staff have an Ombudsman sub-committee of the Governor's Advisory Council on Aging to help address this issue. ASB staff are looking for other resources such as Medicaid to help meet this need.	Marie Matthews, Fiscal Policy Advisor	April 30, 2002
Finding #2-36	93.044, 93.045	While PHHS agrees with the recommendation that ASB staff needs to review the methodology area agencies use to allocate funding and will incorporate this into the next four year Area Plan format as well as our next area agency assessments, we do not agree that dictating how Area Agencies distribute funds to their counties or projects is appropriate nor does the Older Americans Act require such control.	Marie Matthews, Fiscal Policy Advisor	June 30, 2002
Finding #2-37	93.775	Upon receiving future program income, the Department of Justice (DOJ) will deposit the funds in an interest bearing account. This account has been established with the Board of Investments. DOJ is working with the Department of Administration to return the \$3,200 of lost interest earnings from the general fund to the federal fund. Federal approval has been received to spend the interest earnings.	Karen Munro, Assistant Administrator	Implemented

**STATE OF MONTANA  
CORRECTIVE ACTION PLAN  
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2001  
CAP-Corrective Action Plan**

Finding #	CFDA #	CAP-Corrective Action Plan	Person Responsible for CAP	Target Date
Finding #2-38	93.775	Cash draws will be done on a monthly basis at a minimum and will be done in compliance with federal regulations.	Karen Munro, Assistant Administrator	Implemented
Finding #2-39	93.775	The Department of Justice has revised travel cost allocation procedures to ensure compliance with the grant. The federal government has decreased the grant award for funding by \$381 for the travel cost violation.	Loraine Shepard	Implemented
Finding #2-40	Various R & D	University personnel completed a leave assessment study in February 2001 that supports the current rates being utilized by Montana Tech of The University of Montana. Personnel will further refine their procedures and annually review leave assessment rates to ensure validity.	L. Job, Director Grants and Contracts	February 2001
Finding #2-41	Various R & D	The University will implement procedures by June 30, 2001 that include sponsored program personnel monitoring completed time and effort reports to ensure compliance with applicable policies and procedures. Notification will be sent to departments who are not in compliance. Sponsored program personnel will also conduct periodic departmental reviews beginning in fiscal year 2002 relating time and effort reporting procedures. The University will also annually distribute memos to principal investigators reminding those employees of their responsibility in certifying time and effort and the procedures. The department in question will have the time and effort reports recertified by someone who has direct knowledge of the time/work performed.	C. Carlson, Associate Vice President for Research	June 2001 with implementation of departmental reviews occurring in fiscal year 2002.
Finding #2-42	17.253	The Department of Labor and Industry concurs the expenditures recorded on the state's accounting records at June 30, 2001 for the Welfare-to-Work grant were greater than the amount awarded the department. However, the federal award is effective through August 29, 2002 and therefore, the department is still within an acceptable timeframe to make the appropriate corrections to its accounting records. With the exception of direct client benefits, all other activities are allowable costs under the Wagner Peyer, or state ESA funding sources, meaning these costs can be charged to either of these funding sources. Benefit payments did not exceed the Welfare to Work funding, rather the excess expenditures were caused by direct staff costs. Field staff have been instructed to direct charge their time for allowable activities to applicable programs whenever they are working with eligible clients for that program. When total program costs exceeds a contract award, the staff costs are transferred into the Wagner Peyer grant or state ESA funding sources.	Gary Warren, FSB Mark Bowld, WSD	March 31, 2002

## Corrective Action Plan

**STATE OF MONTANA  
CORRECTIVE ACTION PLAN  
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2001**

Finding #	CFDA #	CAP- Corrective Action Plan	Person Responsible for CAP	Target Date
Finding #2-43	10.551, 10.561	A new process is in place and staff has been cross-trained.	Marie Matthews, Fiscal Policy Advisor	Completed
Finding #2-44	Various	The department is reviewing both the TEAMS and CAPS reports to identify and remove unnecessary reports.	Marie Matthews, Fiscal Policy Advisor	June 30, 2002
Finding #2-45	10.555, 81.010, 84.027, 84.078	The Office of Public Instruction contacted the four counties that were, at the time of the audit, still receiving their funds by warrant rather than electronic funds transfer (EFT). Three of those counties now accept EFT payments; Gallatin county is our only hold out. We continue to call and write the Gallatin County Treasurer, asking that she reconsider.	Julia Dilly , FSB Administrator	July 1, 2002
Finding #2-46	17.225	The Department of Revenue will modify the department's computer system to transfer the Unemployment Insurance experience rating from previous employers to successor employers, thereby ensuring rates are calculated properly.	Jeff Miller, Administrator, Policy Management	Implemented March 2002
Finding #2-47	Various	A workplan is in process to improve all areas of financial control.	Marie Matthews, Fiscal Policy Advisor	December 31, 2002
Finding #2-48	Various	The department has established work groups to review reconciliation activities and establish additional procedures as necessary per system. Systems have been prioritized according to risk and are being addressed in that order.	Marie Matthews, Fiscal Policy Advisor	June 30, 2002
Finding #2-49	Various	The Department of Environmental Quality developed and adopted a written Financial Management Control Plan. Agency provides training on policies and procedures and has improved its new employee orientation process to promote the policies and procedures and the information available on the department's intranet. Fiscal Management Bureau staff have established desk manuals.	Centralized Services Division Administrator	April 2000
Finding #2-50	Various	The Department of Environmental Quality developed and implemented written policy and procedures on cash management. In April of 2001 the electronic cash receiving log and chain of custody record were implemented and staff was trained on the system.	Centralized Services Division Administrator	April 2000
Finding #2-51	84.243	The Office of Commissioner of Higher Education's Director of Accounting and Budgeting will approve all fiscal year-end-adjusting entries. Tech-Prep Consortium will pay all presenter fees, as required by federal regulations.	Jackie Grenfell, OCHE Federal Accountant	March 1, 2002

**STATE OF MONTANA  
CORRECTIVE ACTION PLAN  
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2001  
CAP: Corrective Action Plan**

Finding #	CFDA #	Person Responsible for CAP	Target Date
Finding #2-52	84.032	Karen Wing, GSLP Controller	July 1, 2002
Finding #2-53	12.404	Randall Mosley, Deputy Director, and Department of Military Affairs	Ongoing
Finding #2-54	10.555	Chris Emerson, Director of School Nutrition Programs, Office of Public Instruction	June 30, 2003

FY01 Financial Section

FY00 Financial Section

Auditor's Report & Findings

Corrective Action Plan

**Summary Schedule of Prior  
Audit Findings**





# Summary Schedule of Prior Audit Findings

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## Table of Contents

Summary Schedule of Prior Audit Findings..... Page E-l



STATE OF MONTANA  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2001

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
Various	AMLR 15.252 Capitalization Grants for State Revolving Funds 66.436 Performance Partnership Grants 66.605	4-5	Leave pool inadequacy	N/A	2	98-99	DEQ was unsuccessful in soliciting a statewide approach to leave pools and has prepared its own documentation to submit to its cognizant agency for approval. This documentation is currently being reviewed by DEQ management before submission.
Various	Food Stamps 10.551 State Adm. Matching Grants for Food Stamps Temporary Assistance for Needy Families 10.551 Child Care & Development Block Grant 93.558 Foster Care - Title IV-E 93.658 Medical Assistance Program 93.575, 93.658, 93.778	13-10	Inadequate procedures to prepare the Schedule of Expenditures of Federal Awards (SEFA)	N/A	2	96-97	Procedures for completing the SEFA are reviewed annually following the instructions provided by OMB. Instructions continued to decline over the last 3 years.
Various	Food Stamps, Child Support Enforcement, SSDI, among others 10.551, 10.557, 10.558, 10.561, 84.126, 93.550, 93.563, 93.568, 93.575, 93.667, 93.778, 96.001	13-11	Noncompliance with CMIA	N/A	2	96-97	The CMIA agreement has been reviewed and amended annually to continue improving DPHHS compliance with the new schedule. Procedures are being developed to ensure daily draws are completed in compliance with the CMIA agreement and OMB A102.
Various	Food Stamps, Child Support Enforcement, SSDI, among others 10.551, 10.561, 10.557, 10.558, 10.567, 84.126, 93.044, 93.045, 93.558, 93.563, 93.568, 93.575, 93.596, 93.658, 93.667, 93.775, 93.777, 93.778, 93.959, 93.994, 96.001	2-1	Noncompliance with CMIA	N/A	2	98-99	The CMIA agreement has been reviewed and amended annually to continue improving DPHHS compliance with the draw schedules. Procedures are being developed to ensure daily draws are completed in compliance with the CMIA agreement and OMB A102.
Various	Medicaid Cluster 93.775, 93.777, 93.778	10-5	Verification of claims paid is inadequate	\$1,444,136	1	98-99	The overpayment has been recovered and returned to HCFA. The issue has been resolved to the

Category of Corrective Action Taken:  
1 Findings have been fully corrected.      2 Findings have not been corrected or are partially corrected.      3 Corrective action taken is significantly different than reported.

STATE OF MONTANA  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2001

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
Various	Medicaid Cluster 93.775, 93.777, 93.778	10-6	Delays in contract negotiations resulted in extension of the contract terms.	N/A	1	98-99	PHHS modified the contract to clarify the timely filing guidelines. PHHS has not paid any claims to the contractor that exceeded the 365-day timely filing limit.
Various	Medicaid Cluster 93.775, 93.777, 93.778	10-9	Wrong Federal Medical Assistance Percentage (FMAP) Rates used	289,889	1	98-99	Although the accounting records reflected the wrong FMAP rates during this time period, the financial reporting staff used the correct rates on reports to the federal agency and in calculating and drawing Medicaid funds. PHHS has corrected the accounting records.
Various	Aging Cluster, Child Support Enforcement, among others 84.126, 93.044, 93.045, 93.558, 93.959, 93.563, 93.667, 93.994	9-6	Noncompliance of federal reporting and level of effort requirements	N/A	2	98-99	General reporting requirements and documentation have been established and procedures for reviewing specific federal reports are being developed when necessary.
Various	Supplemental for WIC 10.557 19.935, 93.536 OSE 93.537 Child Care Cluster 93.575 Foster Care IV-E 93.658 Social Services Block 93.667, 93.596	2-2	Noncompliance to CMIA	N/A	2	98-99	The CMIA agreement has been reviewed and amended annually to continue improving DPHHS compliance with the draw schedules. Procedures are being developed to ensure daily draws are completed in compliance with the CMIA agreement and OMB A102.
Various	Supplemental WIC 10.557 Maternal & Child Health Services Block Grant 93.994 Social Services Block Grant 93.667	2-3	Inability to ensure that eligible persons are receiving allowable federal aid	\$456,779 in FY 98 and \$462,615 in FY 99.	1	98-99	The A-133 audit of the subrecipient has been completed. The audit report indicated that the federal resources were spent appropriately and no refund to the federal program was required. The issue has been resolved to the satisfaction of the federal agency.

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**STATE OF MONTANA**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2001**

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
Various	Rehab Services 84, 126 Title IV-E 93,044, 93,045 TANF 93,559, 93,775, 93,777 CSE - Title IV-E 93,658 Foster Care - Title IV-E 93,658 Medicaid Cluster 93,775, 93,777, 93,778	9-7	Noncompliance with federal regulations for review and analysis of data processing and system security issues for systems.	N/A	2	98-99	PHHS is currently compiling risk assessment documents for the various systems utilized by the agency.
Various	Aging Cluster 93,044, 93,045 Foster Care Title IV-E 93,658 Medicaid Cluster 93,775, 93,777, 93,778	10-15	Reconciliation Issues between subsystems (MMIS & CAPS) and the primary accounting system.	N/A	2	98-99	Procedures for reconciling MMIS to SABHRS have been completed and implemented for state fiscal years 2000 and 2001. PHHS is currently documenting the control procedures in place for ensuring the CAPS subsystem fully supports data transferred to the state accounting system. Risk areas will be identified and additional control procedures and accounting entries be conducted as necessary.
Various	Supplemental for WIC 10,557 Food Distribution on Indian Reservations TANF 10,557 Medicaid Cluster 93,558, 93,775, 93,777, 93,778	2-5	Inability to ensure that all transactions are in accordance with GAAP	N/A	2	98-99	DPHHS is working on developing an efficient and effective internal control system ensuring transactions are recorded appropriately.
Various	Medicaid Cluster 93,775, 93,777, 93,778	10-17	Loss of interest earnings to the state	N/A	1	98-99	PHHS has reviewed the collection procedures and made changes which are appropriate to ensure efficient, accurate and timely processing.
Various	Aging Cluster 93,044, 93,045 Foster Care Title IV-E 93,658	10-1	Production data security	N/A	1	98-99	Correction implemented - No corrective plan required.
Various	Aging Cluster 93,044, 93,045 Foster Care Title IV-E 93,658	10-2	CAPS (a subsystem) does not report all service provider activity.	N/A	2	98-99	CAPS has the capability of accepting history only transactions. Annually the number of child welfare transactions processed external to CAPS amounts to

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STATE OF MONTANA  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2001

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
Various	Aging Cluster 93.044, 93.045 Foster Care Title IV-E 93.656	10-3	Inability to ensure accurate funding sources are processed.	N/A	2	98-99	approximately \$50,000 out of a budget of 5,000,000. Currently, PHHS is evaluating whether additional procedures are necessary for this immaterial amount of transactions.
Various	Section 8 Tenant-Based Cluster 14.855, 14.857	3-1	Noncompliance with OMB Circular A-133	N/A	1	98-99	The programming logic error has been identified and is confined to an area of funding activity that can be corrected using existing internal controls.
Various	Fish and Wildlife Cluster 15.605, 15.611	4-2	Insufficient sub-grant monitoring and reporting	N/A	1	98-99	Cash was reconciled for Fiscal Year 2000 by DOC.  FWP has revised the language of their personal services contract to provide subrecipients with information necessary to identify subgrants that include federal funds and inform them of audit requirements for entities receiving federal funds.
Various	Fish and Wildlife Cluster 15.605, 15.611	4-3	Employees do not allocate leave taken to projects where it is earned.	N/A	1	98-99	FWP has developed a time reporting policy, effective January 2000, which requires all employees to charge actual time worked to their projects. In order to equitably assign paid leave and fringe benefits to department assessed projects, an additive rate to direct labor dollars on all US Fish & Wildlife grants.
Various	Fish and Wildlife Cluster 15.605, 15.611	4-4	Expenditure understatement in FY 1998 and overstatement in FY 1999.	\$178,000	1	98-99	FWP reviewed FY01 expenditures in the Upland Game Bird account to ensure they were recorded in the correct fiscal year.

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STATE OF MONTANA  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2001

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
Various	Special Education Cluster 84.027, 84.173	9-1	Inadequate maintenance of child count certifications for three years	N/A	1	98-99	Child count verification forms have been maintained by the Division of Special Education in accordance with Federal and State records retention policies.
Various	Various in the Research & Development Cluster	12-1	Noncompliance with subrecipient monitoring requirements	N/A	1	98-99	University personnel reviewed procedures to ensure compliance with the current OMB Circular A-133.
Various	R & D Cluster	11-1	Inaccurate federal reporting	N/A	1	98-97	This issue was resolved by the implementation of Banner at MSU. Grants and Contracts feeds directly to the finance module.
Various	R & D Cluster	12-3	Grant reports are not supported by accounting records	N/A	1	98-99	This issue was resolved by the implementation of Banner. Grants and Contracts feeds directly to the main finance module.
Various	R & D Cluster	12-4	Various violations of OMB Circulars A-110 and A-21.	N/A	1	98-99	MSU Bozeman resolved with cognizant agency. MSU is restructuring its database to be in compliance with OMB's. The tracking system developed in February 2000 at MSU Northern is still in effect. For both FY2000 and FY2001, salaried individuals in grant positions sign a time and effort certification indicating the percentage of time they spent on their grant(s). This corresponds to the amount that was paid by the grant to the individual. This tracking system is implemented for all grants that are funded by multiple sources that include grants or 100% grant funded. Actual time worked on grants for hourly and temporary positions is still captured

Category of Corrective Action Taken;

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STATE OF MONTANA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE TWO FISCAL YEARS ENDED JUNE 30,2001

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
							when the payroll process are completed.
Various	Various CFDA #	12-2	Certain programs paid capped amounts for services	Greater than \$10,000	1	98-99	Department of Administration has billed and collected all service costs at established rates.
10.557	U.S. DEPARTMENT OF AGRICULTURE Special Supplemental Nutrition Program for WIC	13-1	Noncompliance with accounting policy	N/A	1	96-97	DPHHS has discussed the correct accounting transaction for rebate collections with the Department of Administration. The collections will continue to be recorded as expenditure abatements in the state accounting system and a receivable will be recorded at the end of each state fiscal year for the estimated collections owed. Procedures have been implemented to ensure the appropriate transactions are recorded at each state fiscal year end.
10.567	Food Distribution Program on Indian Reservations	13-12	Inadequate subrecipient monitoring procedures	\$4,158	1	96-97	Procedures are in place.
10.567	Food Distribution Program on Indian Reservations	2-4	Procedures regarding receipt of commodities were not followed.	N/A	1	98-99	The warehouse employees obtain a signature from the receiver for each shipment. The warehouse has changed its processes to ensure that the warehouse drivers also sign for each shipment.
15.252	U.S. DEPARTMENT OF INTERIOR Abandoned Mine Land Reclamation (AMLR) Program	6-1	Inadequate subrecipient monitoring procedures	N/A	1	96-97	DEQ has developed A-133 compliant procedures to monitor subrecipients.
15.252	AMLR	4-1	Federal cash draw procedures (CMIA) not followed	N/A	1	98-99	DEQ has implemented this recommendation of requesting AMLR cash in accordance with the state/federal cash management agreement.

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STATE OF MONTANA  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2001

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
17.249	U.S. DEPARTMENT OF LABOR Employment Services & Job Training	5-1	Charging 100% of the termination costs to the federal program	11,857	1	98-99	The indirect cost rate that was negotiated between the U.S. Department of Education and this office for FY2002-2004 includes payments for unused leave, and we are making payments for unused leave from the indirect cost pool.
20.205	U.S. DEPARTMENT OF TRANSPORTATION Highway Planning & Construction	9-1	Inadequate subrecipient monitoring procedures	N/A	2	98-97	MDT has informed staff responsible for federal programs of the requirement to modify contract language to comply with OMB Circular A-133. There has not been any follow up to verify compliance.
20.205	Highway Planning & Construction	9-3	Noncompliance with CMAA	N/A	1	98-97	MDT worked with the Department of Administration to establish procedures to comply with the recommendations made by the Legislative Audit Division.
20.205	Highway Planning & Construction	6-1	Inadequate subrecipient monitoring procedures	N/A	2	98-99	The Research Section of MDT has implemented procedures to review the audit records of subrecipients participating in the LTAP Program. Offices responsible for federal programs have been informed of the requirement for contract language to comply with OMB Circular A-133. The department develops a comprehensive list of funds subgranted to other agencies. This list is a supplement to the Schedule of Economic Assistance that is submitted annually.
20.205	Highway Planning & Construction	6-2	Noncompliance with CMAA	N/A	1	98-99	MDT worked with the Department of Administration to establish procedures to comply with the

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STATE OF MONTANA  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2001

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
47.076	NATIONAL SCIENCE FOUNDATION Education & Human Resources - Research & Development Cluster	7-1	The Mineral Education Program for Young Scientists and costs sharing was understated by \$13,438.	\$13,438	1	98-99	Recommendations made by the Legislative Audit Division.  Cost sharing policies and procedures has been reviewed and clearly communicated to applicable personnel. Training has occurred on Missoula campus at several different times. Montana Tech of The University of Montana will be conducting training Fall 2001. For the grant in question, as of April 6, 1999, the principal investigator obtained written documentation from the industry partners to support \$27,000 in cost sharing.
66.458	U.S. ENVIRONMENTAL PROTECTION AGENCY Capitalization Grants for State Revolving Funds	8-2	Financial Status Reports have not been submitted to the federal oversight agency	N/A	1	98-99	DEQ has prepared and submitted all past due Financial Status Reports and will monitor deadlines to ensure timely submission. A list of all financial and operational reports that are due for each division has been created. This list will be utilized to track the timeliness of reports.
66.458	Capitalization Grants for State Revolving Funds	6-1	Inadequate subrecipient monitoring procedures	N/A	1	96-97	The Department has developed OMB Circular A-133 compliant procedures to monitor subrecipients.
84.032	U.S. DEPARTMENT OF EDUCATION Student Financial Assistance Cluster	9-4	Insufficient review of lenders	N/A	2	98-99	Changes have been implemented. GSL received additional FTE to assist with out-of-state lender reviews.
84.048	Vocational Ed - Basic Grants to States	8-2	Noncompliance with CMIA	N/A	1	96-97	Changes have been implemented.
84.048	Vocational Ed - Basic Grants to States	9-2	Noncompliance with CMIA	N/A	1	98-99	Changes have been implemented.

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STATE OF MONTANA  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2001

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
84-048	Vocational Ed - Basic Grants to States	9-3	Subrecipient Monitoring	N/A	1	98-99	Changes were implemented as of March 15, 2000.
84-126	Rehabilitation Services- Vocational Rehabilitation Grants to States	9-8	Subsystem (AWACS) did not reconcile with the primary accounting system	N/A	2	98-99	PHHS is currently documenting the control procedures in place for ensuring the AWACS subsystem fully supports data transferred to the state accounting system. Risk areas will be identified and additional control procedures and reconciliations will be conducted as necessary.
93-558	<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b> Temporary Assistance for Needy Family Program (TANF)	10-11	Overcharge of \$43,775 to AFDC and undercharge of same to TANF	\$43,775	1	98-99	No repayment is required. The issue has been resolved to the satisfaction of the federal agency.
93-560	Family Support Payments to States - Assistance Payments	3-1	Incorrect assistance payments	\$8,614	3	96-97	The DOC is no longer eligible to receive this financial assistance.
93-560	Family Support Payments to States - Assistance Payments	10-8	Inadequate procedures to record client eligibility history	\$356	1	96-97	Procedures and system changes have been implemented.
93-560	Family Support Payments to States - Assistance Payments	13-9	Unreconciled child support payment systems	N/A	2	96-97	CSED is continuing manual reconciliations on all cases reported as potentially containing overpayments
93-563	Child Support Enforcement Title IV-E	10-13	Inadequate procedures to ensure reconciliation between systems.	N/A	1	98-99	Procedures have been developed to reconcile the two systems. This procedure will be implemented. Additional report need to complete the recommendation. Two additional reports have been requested to assist in the CSED reconciliation of SEARCHS cash with SABHRS cash. Once programming resources are available, the report will be produced and CSED will be

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STATE OF MONTANA  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2001

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
							able to continue the analysis.
93.563	Child Support Enforcement Title IV-D	10-18	Possibility that subsystem (SEARCHS) incorrectly calculates child support payments.	N/A	1	98-99	The Child Support Enforcement Division has made numerous changes to SEARCHS since its inception in 1993 in order to cope with all the state and federal law changes. The division submitted a problem report to its system contractor to remove the enforcement fee beginning July 1, 1999. The contractor did this by capping the fee at \$0.00; the table will be fixed at a later time. The current income table including table (FWT) incorporates all IRS withholding tables except those with income over \$99,999. Currently, the division uses independent software for the guideline calculations when incomes exceed the amounts in the FWT. The issue has been resolved to the satisfaction of the federal agency.
93.658	Foster Care - Title IV-E	10-8	Inadequate procedures to record client eligibility history	N/A	1	96-97	Procedures and system changes have been implemented by PHHS.
93.658	Foster Care - Title IV-E	10-9	Inadequate reconciliation procedures from CAPS to state accounting system	N/A	2	96-97	PHHS is currently documenting the control procedures in place for ensuring the CAPS subsystem fully supports data transferred to the state accounting system. Risk areas will be identified and additional control procedures and reconciliations will be conducted as necessary.
93.658	Foster Care - Title IV-E	13-6	Ineffective procedures for accounting computer system reconciliation	N/A	2	96-97	PHHS is currently documenting the control procedures in place for ensuring the CAPS subsystem fully

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STATE OF MONTANA  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 2001

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
93.658	Foster Care - Title IV-E	13-7	Inadequate separation of duties	N/A	1	96-97	supports data transferred to the state accounting system. Risk areas will be identified and additional control procedures and reconciliations will be conducted as necessary.  PHHS has reviewed the collection procedures and made changes when appropriate to ensure efficient, accurate and timely processing.
93.658	Foster Care - Title IV-E	10-2	Inappropriate production & data access to CAPS system	N/A	2	96-97	PHHS has limited the access to the production change user number to 3 hours per day. The password for the user number must be obtained from a state representative and the changes to be made logged. A system trace is available allowing ISD to track all changes made by the production change user number. State staff have the ability to complete spot checks on the use of the production change user number.
93.658	Foster Care - Title IV-E	10-4	Inadequate procedures to review & correct data entry process errors	N/A	2	96-97	PHHS has procedures in place to correct processing errors in a timely manner.
93.658	Foster Care - Title IV-E	10-14	Inadequate policies and procedures to ensure timely reconciliation of revenues, trust accounts and accounting records.	N/A	2	98-99	PHHS (through a contractor) completed a reconciliation of one month's activity in the foster care trust accounts. The department is currently working on using the reconciliation technique to develop an ongoing timely procedure.
93.658	Foster Care - Title IV-E	3-1	Incorrect assistance payments	\$7,088	1	96-97	PHHS hired financial specialists to monitor compliance with grant

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STATE OF MONTANA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE TWO FISCAL YEARS ENDED JUNE 30,2001

CFDA #	Federal Program Name	Finding #	Prior Audit Finding	Questioned Costs	Corrective Action	Initial Year of Finding	Comments
93.778	Medical Assistance Program	13-1	Noncompliance with accounting policy	N/A	1	96-97	<p>eligibility. The department has requested a report from CAPs that will assist in the reconciliation process. Until this report is available (est. Oct 2001) the department is performing a partial reconciliation between CAPs and SBRG CAPs and is not allowed to report the expenditures directly on the department's accounting records. The department still cannot release payments. This modification has been requested and is on CAPS change control. It is the number one priority, but there are several issues that need to be resolved before this can be implemented. Overall, the department has worked hard and is continuing to work hard. DPHHS is streamlining the foster care process.</p> <p>DPHHS has discussed the correct accounting transactions for drug rebate collections with the DOA. The collections will continue to be recorded as expenditure abatements in the state accounting system and a receivable will be recorded at the end of each state fiscal year for the estimated collections owed. DPHHS will have been requested to ensure the appropriate transactions are recorded at each state fiscal year end.</p>



Summary Schedule of Prior  
Audit Findings

Corrective Action Plan

Auditor's Report & Findings

FY00 Financial Section

FY01 Financial Section